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THE IMPACT OF NAFTA ON THE PUBLIC SECTOR

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The Impact of NAFTA on the Public S...

HEARING
BEFORE THE
LEGISLATION AND NATIONAL
SECURITY SUBCOMMITTEE
OF THE
COMMITTEE ON
GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS
FIRST SESSION

JULY 27, 1993

Printed for the use of the Committee on Government Operations



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THE IMPACT OF NAFTA ON THE PUBLIC SECTOR

TUESDAY, JULY 27, 1993

HOUSE OF REPRESENTATIVES,
LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:25 a.m., in room 2154, Rayburn House Office Building, Hon. John Conyers, Jr. (chairman of the subcommittee) presiding.

Members present: Representatives John Conyers, Jr., Carolyn B. Maloney, Corrine Brown, Al McCandless, and William F. Clinger, Jr.

Also present: Representatives Gene Green and Stephen Horn.

Subcommittee staff present: James C. Turner, staff director; Cheryl A. Phelps; professional staff member; Rosalind Burke-Alexander, clerk; and Jane O. Cobb, minority professional staff, Committee on Government Operations.

OPENING STATEMENT OF REPRESENTATIVE MALONEY, PRESIDING

Mrs. MALONEY. The subcommittee will come to order.

The chairman is on his way and he will be here shortly, but in the interest of time, we are going to begin.

I am going to read Chairman Conyers' opening statement and I hope that he will be here to complete it.

"We are here today to examine the impact of the North American Free Trade Agreement, or NAFTA, on government procurement and the public sector. This examination reflects the committee's legislative jurisdiction over provisions in international trade agreements affecting Federal Government procurement, as well as its oversight jurisdiction of other areas relevant to the implementation of the NAFTA.

"There has been little discussion of the effect of this agreement on the principal area of commerce that we, as Representatives of the people, can directly influence, government purchasing.

"We may not be able to decide who General Motors employs to build its cars, but we can decide who our government employs to build our highways. Public procurement is a critical means by which our government addresses the social, economic, and infrastructure interests of our communities.

"Our procurement laws ensure that our government purchases U.S. goods and services, employs U.S. workers, and invests in the United States economy. When we enter into trade agreements that

set aside these laws, we must ensure that opportunities gained equal opportunities lost.

"This does not appear to be the case with NAFTA.

"With an estimated value of \$66 billion, the United States Federal civilian procurement market is three times greater than the Canadian and Mexican markets combined, and most of the United States market is open to foreign competition.

"Under NAFTA, Mexico, with a total procurement market valued at \$15 billion, is granted \$1 billion in set-asides annually and 10 years to meet its obligations under the agreement. Under NAFTA, Mexico's two largest purchasing entities, responsible for 40 percent of total government procurement, enjoy a threshold for procurement coverage that is 5 times higher than for most United States Government entities.

"The committee is also deeply concerned that NAFTA may weaken State procurement laws. We are concerned that NAFTA will foster legal challenges to State and local regulations that are more rigorous than those set out in the agreement. Under NAFTA, we may find that the legislative and regulatory authority of our States are preempted by the rules of trade.

"We are equally concerned about the potential of NAFTA to supersede the multilateral agreement governing international procurement. The United States and Canada, along with 18 other nations, are signatories of the GATT government procurement code, but Mexico is not.

"If, as an early draft provided, NAFTA provisions would prevail over those of the code, then Mexican suppliers may enjoy rights and privileges superior to those granted other nations. Because this interpretation could undermine our own interests in these markets, and the final language in NAFTA does not clearly address this matter, the committee is interested in knowing how this agreement will be interpreted.

"Another question which must be addressed is how we will respond to the additional demands on Federal, State and local governments for public services related to job loss, economic dislocations and other adjustments resulting from NAFTA.

"The President has promised a comprehensive dislocated workers program containing training services, health care benefits, income support and assistance to communities adversely affected by NAFTA.

"How much will this program cost? How will we pay for it?

"If we admit that NAFTA will adversely affect jobs and create the need for those adjustment programs, then we must also face the fact that NAFTA will adversely affect government revenues and the quality and quantity of services which the public sector delivers.

"The Department of Labor is still developing the dislocated workers program and is unable to provide public testimony at this time. However, I understand that the Department of Commerce and the Office of the Trade Representative can respond, in general terms, to the administration's approach to these critical issues.

"We welcome all of our witnesses and look forward to a candid discussion."

At this time, I wish to recognize the ranking member of the subcommittee, Mr. Al McCandless.

Mr. MCCANDLESS. Thank you, Madam Chair.

I want to thank Chairman Conyers for convening this timely hearing on the North American Free Trade Agreement. I am not one of them, but there seem to be many Members sitting on the fence regarding NAFTA.

Since the final decision regarding the fate of this historic agreement rests with the Members of Congress, it is vitally important that each of us here review all potential scenarios, positive and negative. In that regard, I would like to extend my appreciation to the chairman and his staff, who recognize the importance of such balance and readily agreed to several suggestions by the minority for witnesses for today's hearing.

I am all for the enactment of NAFTA. In reading and studying the numerous articles, reports, and analyses that have been done on NAFTA, I find it impossible to question that it is not in our best interest to sign such an agreement. That is not to say that there are not legitimate concerns to be addressed, but that given their true weight and merit, those concerns should not stand in the way of an agreement itself.

An example of concern that seems to be blown out of proportion is the fear that a NAFTA would cause massive numbers of United States manufacturing jobs and businesses to relocate in Mexico, leaving a glut of unemployment of low-skilled workers. However, if you look just beyond the surface, there is an overwhelming tide of expert documentation that says that NAFTA's effect on U.S. jobs will be small, that with a NAFTA, the total number of jobs is not expected to be affected in the long run.

Among those who have made this assessment are the very institutions we in Congress turn to every day for sound facts and figures on the economy, public policies, science and every other issue Congress must make decisions about. They are the Congressional Budget Office, Federal Reserve Board, Congressional Research Service, Library of Congress, and the Office of Technology Assessment.

The fact that the work of these institutions is independent from that of the pro-NAFTA administration gives even more credence to the argument that the effect of NAFTA on jobs lost will be negligible and that the NAFTA will be beneficial to all parties in the long run.

Basically, what these studies show is that it is not the number of jobs that will be affected by NAFTA, but the composition, the composition of jobs in the economy that will change. In other words, NAFTA may result in fewer jobs for low-skilled workers in the United States, but they will be replaced by other higher-skilled jobs, a phenomenon that is occurring even without NAFTA. It is what happens when a country's standard of living rises.

Trying to protect and hold on to these low-skilled jobs will only retard our overall economic and social progress. Instead, we need to work to reeducate and retrain a more highly skilled and competitive work force while enacting a NAFTA for the overwhelming benefits it would provide.

The assessment by the Congressional Budget Office summarizes these benefits as well as anyone.

A rising standard of living in Mexico based upon greater economic efficiency and open trade can also help raise the standard of living in the United States. The United States would also benefit from the improvement in economic efficiency that accompanies freer trade.

U.S. consumers would benefit from lower prices. U.S. workers from the net increase in jobs and income, and U.S. investors from the new investment opportunities in both Mexico and the United States. The United States would also be helped by changes in Mexico that, over the long run, would reduce pressure related to immigration and increase political stability.

My support for the free trade agreement that basically eliminates tariffs and other trade barriers is obvious. For the economy as a whole, both economic theory and historical experience indicates that all countries benefit from freer trade.

When each country specializes in production of those products in which it is most suited, efficiency and productivity in all countries increases; income rises, competitiveness is strengthened and consumers and producers are better off. I believe that maintaining protectionist restrictions for the sake of saving low-wage, low-skilled jobs is not only shortsighted but creates a major obstacle to raising our standard of living.

In a study for the National Center of Policy Analysis, James Bevard found that protectionist measures such as tariffs and quotas cost each U.S. family an average of about \$800 a year. Furthermore, he says that low-income households suffer more because they spend a greater share of their earnings on food and clothing, two of our most rigidly controlled imports.

The NAFTA offers a win-win proposition. However, I recognize that there are painful adjustments to any worthwhile progress. In the case of NAFTA, the transition of our work force to higher-skilled, higher-paid jobs. I hope to learn from our witnesses today what other adjustments might be necessary with NAFTA and how we might best address those adjustments so that we may enjoy the many benefits from a successful trade agreement with our neighboring countries.

Thank you, Madam Chairwoman.

Mrs. MALONEY. Mr. Clinger from Pennsylvania, likewise, has an opening statement.

Mr. CLINGER. Thank you, Madam Chairwoman.

I want to thank Chairman Conyers for scheduling this hearing. I think it is an important hearing because even though we have had a number of hearings on NAFTA and the implications it may have for our economy, on government procurement has not received any attention. I think this hearing will focus and give that much-needed attention to the government procurement aspect of the NAFTA.

I would ask unanimous consent that my longer statement be included in the record.

Mrs. MALONEY. Thank you very much, and so granted.

[The prepared statement of Mr. Clinger follows:]

**STATEMENT OF THE HONORABLE WILLIAM F. CLINGER, JR.
COMMITTEE ON GOVERNMENT OPERATIONS
SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY
'IMPACT OF THE NAFTA ON THE PUBLIC SECTOR'**

July 27, 1993

Thank you, Mr. Chairman.

I would like to take this opportunity to thank the witnesses from the Administration and from the various think tanks who have been called upon time and again to come before Congress and answer to their work on the NAFTA. Although it is the first hearing on the agreement for this subcommittee, two other Government Operations subcommittees have held hearings on it and I know there have been numerous other Congressional hearings on the issues surrounding the NAFTA. Obviously an agreement of this magnitude and importance presents a number of questions and concerns, and since Congress has the final say, it is important for all Members to be educated fully. I want to thank our witnesses for their tireless efforts in this regard.

The unique issues NAFTA presents for this subcommittee have to do with the agreement's effect on the public sector: in particular, public sector jobs, public revenues, and Federal government procurement. Although voluminous works have been produced on NAFTA's economic effects on private sector jobs and businesses, those works have been somewhat limited in their assessment of how our public sector will be affected.

The concerns of this subcommittee require a different set of analyses in order to consider the questions that fall under this subcommittee's jurisdiction: What will the agreement cost the Federal government? How much of the bill do we expect private businesses to foot? How will public coffers be impacted as we make incremental decreases in the collection of border tariffs? What costs savings could our Federal government recognize by being able to procure from the markets directly north and south of our national borders?

I look forward to the testimony today in order to learn more about how a North American Free Trade Agreement would impact these unique issues.

Mrs. MALONEY. As is the practice with this committee, all witnesses are sworn in.

Our first witness is Representative Kaptur, Marcy Kaptur who will make a brief statement.

Will you please stand and raise your right hand?

[Witness sworn.]

Mrs. MALONEY. Please proceed.

STATEMENT OF HON. MARCY KAPTUR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Ms. KAPTUR. Thank you very much, Madam Chair, Mr. McCandless, with whom I had the pleasure of serving on the Banking Committee for many years, and Mr. Clinger.

I am very grateful for the opportunity to be here this morning and present my views. I will be brief and submit written material for the record.

Over the past decades, my State of Ohio has seen over 100,000 jobs lost as a result of companies moving to Mexico, and so I feel compelled to appear before every congressional committee that is holding hearings on this very important issue. Other States, particularly States with high manufacturing employment, have experienced similar losses.

Over 75 Michigan companies have operations now in Mexico employing over 41,000 people. The losses that my State and States like Michigan, Pennsylvania, and even California have experienced have ripped the fabric of society in countless communities throwing many out of work, hurting families and children, creating huge social costs on the public sector locally and overburdening government service providers.

Unfortunately, our economically hard-hit regions will be helped very little by President Clinton's economic plan. That was detailed this past weekend in newspaper reports of studies that the Council of Economic Advisors did. Despite the pain that States like mine have suffered, administration estimates show that the proposed budget will put Ohio and Michigan at the bottom of all States in terms of jobs likely to be created.

In fact, that budget estimates that only 0.7 percent employment growth will occur in the States of Ohio and Michigan. Compare that to Texas where employment growth is projected at 10.9 percent, California at 14 percent, and Arizona at 20.5 percent. Clearly, our region cannot rely on the Clinton economic plan for any relief in the short term. But these dismal figures pale when the job loss that NAFTA will cause is factored in on top of it.

Estimates that account for all of the factors that impact our economic relationship with Mexico, including investment shifts and exchange rate fluctuations, give estimates of net job loss for our country of up to 550,000 more jobs, most of which are centered in and adjacent to the region that I represent.

Economists disagree whether the job loss will be in the near term or the long term, and about exactly how fast it will occur. Some studies have shown that NAFTA may result in some net job gain, but a recent study by the Congressional Budget Office, which you will hear more later about this morning reported that employment studies most often cited by NAFTA supporters, and I quote directly

here, "tend to be weak or inappropriate for analyzing macro-economic issues, such as unemployment and trade deficits."

The authors of that study admitted that even their own economic model gave, "predictions of employment effects that are not particularly useful." We know that predicting the future is difficult; but, past history suggests that NAFTA will have a negative impact on jobs. The current limited free trade zone with Mexico, known as the maquiladora zone, to which I have traveled more than once, has already resulted in over a half million of our jobs being transplanted south of the border.

Even worse in many ways is NAFTA's likely effect on our standard of living. In addition to 500,000 lost jobs and the many thousands more displaced workers seeking part-time work—I have people in my district now working three part-time jobs—NAFTA will exert downward pressure on every U.S. worker's wages.

The Mexican Government's tight control on wages and disregard for worker rights means that Mexican workers are not paid according to their productivity. There is no way U.S. workers can compete with these artificially low wages except by making substantial wage and benefit concessions. Low Mexican wages have already been used to force United States wage concessions and are being used every day.

One company from my district told its workers who were earning \$9 an hour, "you take a \$3-an-hour cut or we are moving to Mexico." The workers said, no, they would not do that. The company made doors for homes, front doors and back doors, and now that particular company is operating in Mexico in the maquiladora zone, because the workers were not willing to work for \$6 an hour with additional cuts in their health benefits.

So we know exactly what happens here with this downward pressure on wages. You can see it in some of the materials that are being put out by head-hunting firms here in the United States, which are actually trying to recruit companies. In fact, a group at Temple University has been trying to recruit companies from our region of the country to locate down to Mexico, using low wages as a lure.

NAFTA has some very vocal friends these days. Among them is the Mexican Government, which is spending as much as \$25 million to lobby NAFTA in Congress, the single largest lobbying expenditure ever by a foreign government in our country.

We have recently read about a special NAFTA Czar appointed by President Clinton to oversee the White House lobbying strategy and the unprecedented alliance of hundreds of corporate leaders in the USA-NAFTA coalition. Nearly every day I receive a slick new study from these individuals talking about how NAFTA will increase opportunities for our companies to export their products to Mexico.

If I listened only to their statements, I might think that is all that NAFTA will do, allow us to sell more goods to Mexico. Well, let's take a closer look at the kind of things we are selling to Mexico. We continue to have a consumer goods trade deficit with Mexico that has been growing steadily. In 1989, it was less than \$2 billion. In 1991, our deficit in consumer goods was over \$3 billion with Mexico.

In other words, the Mexican consumer market is a myth. If you have ever been to Mexico, as I have, and seen the poverty in which workers live, you can understand why they are not rushing to buy our consumer products. I met a woman who has worked for the Zenith Corp. down there for 10 years. She nets for 48 hours work per week, \$15.75 in U.S. dollars. She has to spend \$3 for a box of rice. It is a family with seven children. So there is no way that these families are going to purchase many U.S. goods.

On the other hand, the trade surplus in intermediate and capital goods has been growing. These are products, such as heavy machinery, used to equip new factories being built in northern Mexico.

In other words, we are exporting to Mexico not our products, but our productive capacity. NAFTA won't result in our selling more consumer goods to Mexico, but it will bring Mexican-style standards of living and unemployment to the United States.

It will further tax the already overburdened infrastructure along our border with Mexico and result in serious threats to the environment and public health. It will abrogate the ability of our State and local governments, and even Congress itself, to enforce laws which protect the health and safety of our people. And it will decrease Federal revenues as well as local revenues while at the same time requiring new spending.

We must ask what will be NAFTA's effect on our budget. A recent New York Times article estimated NAFTA's costs in these tight budget times to the U.S. Government as high as \$40 billion for additional infrastructure, border cleanup, inspection, and compliance. At the same time decreased tariff revenues would mean less money to defray these added expenses. That is an equation that simply does not add up.

In these difficult fiscal times, when reducing our budget deficit is a top priority for most Members and our constituents, we simply cannot afford to implement NAFTA unless it contains a secure and dedicated funding source for its many costs. And of course these Federal costs must be added to the tremendous costs that local governments are having to bear in the public sector related to job loss, school districts with declining tax bases due to industrial flight, city and county budgets strained to provide police and fire protection and street repair, and the growing utility burden on residential customers as industrial customers relocate. The list is endless, and, I might add, unquantified by the economists who claim to know something about NAFTA's costs and benefits.

I was very fortunate to attend a hearing in the State of Michigan put together by Chairman Ford from the Education and Labor Committee, who focused on the loss of revenue to State and local governments in western Michigan as a result of this job loss. And I would commend that set of hearings to your attention as you look into this important issue.

If we really want to create jobs and opportunities for our workers, raise our tax base, help our cities and stop the overwhelming drain on the public sector, there is one guaranteed way to do it. This committee is making an important contribution to the debate by looking at government procurement practices, particularly the "Buy American" provisions.

The Federal Government is the Nation's largest purchaser of goods and services. When State and local governments are added in, the overall effect on the economy is substantial. "Buying American" means that U.S. tax dollars are spent here on U.S. companies and U.S. workers. And if I could make any suggestion, it would be that the committee might consider how purchases could be directed to areas hardest hit by economic dislocation and job loss south of our border.

I fear that NAFTA, the ability of Federal, State, and local governments to "Buy American," will be curtailed. Why should we give up a guaranteed job creator for the hazy promise of NAFTA? I know that you will hear from a range of distinguished witnesses this morning.

I will close my remarks now, and Madam Chair and members of the committee, I thank you again for the opportunity to come and voice my views. I will submit additional remarks for the record.

I thank you.

Mrs. MALONEY. Thank you very much.

[The prepared statement of Ms. Kaptur follows:]

STATEMENT OF REPRESENTATIVE MARCY KAPTUR
BEFORE THE
SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY,
COMMITTEE ON GOVERNMENT OPERATIONS
JULY 27, 1993

Thank you, Mr. Chairman and members of the Subcommittee. I want to thank especially Chairman Conyers for holding this hearing.

Over the past decades, my state of Ohio has seen over 100,000 lost jobs as a result of companies relocating to Mexico. Other states have experienced similar losses, particularly states with high manufacturing employment. In Michigan, for example, 75 companies have operations in Mexico, employing 41,718 people. These losses have ripped the fabric of society in countless communities, throwing many out of work, hurting families and children, creating huge social costs, and overburdening government service providers.

Unfortunately, our economically hard-hit regions will be helped very little by President Clinton's economic plan. Despite the pain which my state has suffered, Administration estimates show that the proposed budget will put Ohio and Michigan at the bottom of all the states in terms of jobs likely to be created. The budget estimates only 0.7% employment growth in each of our states. Compare this to Texas at 10.9%; California at 14.0%; and Arizona at 20.05. Clearly, our region cannot rely on the economic plan for relief.

But these dismal figures pale when the job loss that NAFTA will cause is factored in. Estimates that account for all of the factors which impact our economic relationship with Mexico, including investment shifts and exchange rate fluctuations, give estimates of net job loss for the U.S. of up to 550,000 jobs. Economists disagree as to whether the job loss will be in the near term or the long term.

Studies also have been conducted that show NAFTA will result in some net job gain. But a recent study by the Congressional Budget Office, whose distinguished director will testify here today, reported that the employment studies most often cited by NAFTA's supporters "...tend to be weak or inappropriate for analyzing macroeconomic issues such as unemployment and trade deficits." The authors of the study admitted that even their own economic model gave "predictions of employment effects [that] are not particularly useful." Predicting the future is indeed difficult; however, past history suggests that NAFTA will have a negative effect on jobs, since the current limited free trade zone with Mexico, known as the maquiladora zone, has already resulted in over 500,000 jobs being transplanted south of our border.

Even worse, in many ways, is NAFTA's likely effect on our standard of living. In addition to the 500,000 lost jobs, and the many thousands more displaced workers, NAFTA will exert downward pressure on every U.S. worker's wages. The Mexican government's tight control on wages, and disregard for worker's rights, means that Mexican workers are not paid in accordance with their productivity. There is no way U.S. workers can compete with these artificially low wages except by making substantial wage and benefit concessions. Low Mexican wages have already been used to force U.S. wage concessions; NAFTA will expand this practice.

NAFTA has some very vocal friends these days. Among them are the Mexican government, which is spending as much as \$25 million dollars on NAFTA, the largest single lobbying expenditure ever by a foreign government in the U.S.; a special "NAFTA Czar" appointed by President Clinton to oversee the White House lobbying strategy; and the unprecedented alliance of hundreds of corporate leaders in the huge USA*NAFTA coalition.

Nearly every day I receive a slick, new study from these people talking about how NAFTA will increase opportunities for our companies to export their products to Mexico. If I listened only to their statements, I might think that is all that NAFTA will do: allow us to sell more goods to Mexico. Well, let's take a closer look at the kind of things we are selling to Mexico.

As far as consumer goods go, we have a trade deficit with Mexico that has been growing steadily. In 1989 it was less than \$2 billion; in 1991 our trade deficit in consumer goods was over \$3 billion. In other words, the Mexican consumer market is a myth. If you've ever been to Mexico, as I have, and seen the poverty in which workers live, you can understand why they are not rushing to buy our consumer products.

On the other hand, we have a trade surplus in intermediate and capital goods. These are products such as heavy machinery, used to equip factories. In other words, we are exporting to Mexico not our products, but our productive capacity.

NAFTA won't result in our selling more consumer goods to Mexico, but it will bring Mexican-style standards of living and unemployment to the United States. It will further tax the already overburdened infrastructure along our border with Mexico, resulting in serious threats to the environment and public health. It will abrogate the ability of our state and local governments, and even Congress itself, to enforce laws which protect the health and safety of American citizens. It will decrease federal revenues, while at the same time requiring new spending.

We must ask the question of what will be NAFTA's effect on our budget. A recent New York Times article, which I would like to submit for the record, estimated that NAFTA's costs to U.S. taxpayers may rise as high as \$40 billion for infrastructure, border

cleanup, inspection, and compliance. At the same time, decreased tariff revenues mean less money to defray these expenses. That is an equation that simply does not add up. In these difficult fiscal times, when reducing our budget deficit is a top priority for most Members and our constituents, we simply cannot afford to implement NAFTA unless it contains a secure and dedicated funding source for its many costs.

And, of course, these "federal costs" must be added to the tremendous costs local governments are having to bear in the public sector related to job loss -- school districts with declining tax bases due to industrial flight, city and county budgets strained to provide police and fire protection and street repair, the growing utility burden on residential consumers as industrial customers relocate, etc. The list is endless and unquantified by the economists who claim to know something about NAFTA's costs and benefits.

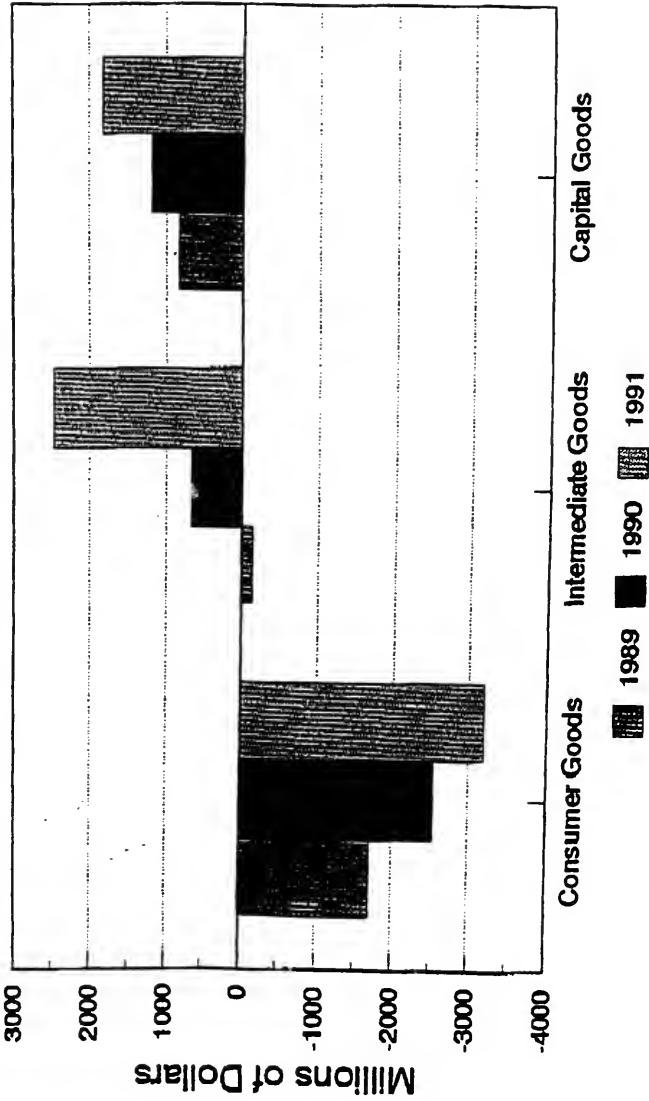
If we really want to create jobs and opportunities for our workers, raise our tax base, help our cities, and stop overwhelming our public sector, there is one guaranteed way to do it: Buy American. The federal government is the nation's largest purchaser of goods and services; when state and local governments are added in, the overall effect on the economy is substantial. Buying American means that U.S. tax dollars are spent here, on U.S. companies and U.S. workers. And purchases should be directed to areas hardest hit by economic dislocation and job loss.

Under NAFTA, the ability of federal, state and local governments to Buy American will be curtailed. Why should we give up a guaranteed jobs-creator for the hazy promises of NAFTA?

I know that you will hear from a range of distinguished witnesses here today, including the Honorable Rufus Verxa, from the office of the Trade Representative, and witnesses who are experts on the public sector. I hope that they can provide some insight into how an alternative to NAFTA might be structured in order to better address the concerns I have raised this morning.

Mr. Chairman, members of the Committee, thank you again for this opportunity to testify on this important issue.

U.S. Trade Balances with Mexico in Consumer, Capital, and Intermediate Goods



Source: Economic Policy Institute calculations using ITC data, 1993.

Mrs. MALONEY. Are there any questions?

Mr. MCCANDLESS. Just a couple.

Marcy, we came to Congress together and I have a great deal of respect for you. You are an asset to this body. With particular reference to Ohio, I was taken back by an article that appeared on April 19, I believe it was in Forbes. I can get that article for you.

It dealt with the manufacturing of automobiles, more specifically, Ford products, and more specifically, the Thunderbird and Cougar lines that are manufactured in Mexico. It went on to talk about some of the problems, and since that time, I have added onto that a little bit, but, in essence, that article said—it was Fortune, I am sorry, Fortune, not Forbes. It said, in essence, that the reason that these Thunderbirds and Cougars are produced in Mexico is because of the high tariffs that currently exist and all of the restrictions that are involved in importing a new vehicle into Mexico beyond that of the 60 kilometer free trade area.

The import quotas and tariffs have really forced investment in Mexico if manufacturers wish to participate in the Mexican economy, and that in the case of the automobiles, if you export \$1.75, then you are—you can import \$1, and that 36 percent of the parts must come from Mexican suppliers.

Now, the article said, in essence, that given the NAFTA, that Ford would much prefer to build these vehicles in Ohio, which I thought was kind of interesting. I thought of you.

Ms. KAPTUR. Thank you. I thank you.

Mr. MCCANDLESS. And that it would be much more to their advantage to export them into Mexico because they would no longer be faced with all of these forced investment requirements that have taken place over the years. I thought that was kind of interesting, because in that particular case, they are talking about the economics of manufacturing in volume of a certain product which they cannot do and sell in Mexico when it is manufactured in the United States. They are no longer competitive with those who have set up plants.

For whatever that is worth, I leave that with you.

Ms. KAPTUR. Well, I thank you, Mr. McCandless. I know your knowledge of the automotive industry and I respect it. You know the industry better than most Members of the Congress. I know you had quite a great deal of experience in it before you came here to the Congress. I think that many of the figures that you have given are correct in terms of the current differential in trying to do business in Mexico in the automotive industry and some of the aberrations that have occurred in the market as a result.

There is no question that it is the automotive industry, General Motors, Ford, and Chrysler, that have moved most of those jobs to Mexico. In fact, General Motors is the largest private sector employer in Mexico. I think the other largest employer in Mexico is PEMEX, the government-owned oil company.

The plants that I have been through and the type of staging that has occurred over the last decade or so pose a real problem for us if this agreement is passed as it is currently structured, even with the rules of origin that are in there now. There has been so much investment that manufacturing platforms set up there will be used

to manufacture down there and ship back up here to the United States.

The CAFE standards have exacerbated the problem in the way that imported vehicles that come into our market don't have to abide by the same—they are not calculated in our fleets and so they are able to manufacture down there and ship vehicles up here that weren't as fuel consumptive. So I think you have kind of a historic reinvestment that has occurred down there for a whole set of reasons, plus the current CAFE standards operating and the relocation of millions and millions of dollars worth of production.

I was in one Ford plant down there, which as a result of savings on wages, saved \$130 million annually, and that is just one plant. The cost savings to manufacturing has been tremendous as they try to compete in the international market. But I think that one of the unfortunate facts is that if this agreement is passed as currently designed, we are going to see—if there are no other provisions included in the agreement—the continuing movement of production down there simply because we have allowed so much infrastructure to be set in place in the automotive industry. And I am unwilling to give away any jobs in this country that could be done here. We have a particular problem because of the magnitude of what has been created now down there, which most of the public is completely unaware of.

My glass industry in Toledo is now on the line, and I mention this because it is so important to our tax base. The government-owned glass company down there, Vitro Glass, is a monopoly by anybody's standards, and a portion of that is owned by Pilkington Glass, 15 percent, Ford Motor owns about 30 percent, I think.

What is going to happen if that agreement is signed? If it is signed as currently drafted, I fully expect several thousand glass jobs in my district to be lost. As the Vitro operation expands how would a community like mine go to court to say that this is really against the competitive laws of the United States. It is in violation of our trust, it is against antitrust.

How do you take another government—another system of economics—to court when you are playing on such a different legal field? We see several thousand glass jobs directly related to the expansion of those plants that will leave from our region. I don't really know how you take Vitro Glass to court in that situation—but I am very, very worried about the continued erosion of the automotive capacity of the United States.

Mr. MCCANDLESS. The thing I keep coming back to is not meant to be argumentative. All of this has happened and NAFTA has just been a piece of paper, 2,000 pages, 44 sections. So if NAFTA is not signed, if NAFTA is not implemented, that is not going to change the status quo, if it is the desire of companies to move to Mexico.

We must understand that the first, second, third generation moved to Asia, to India, to other locations and they have been long gone. In a number of these cases, these people are looking very favorably at the idea of moving their plants back to the Western Hemisphere because of the lesser costs and the better management, that they are not able to handle if the distances are so great.

We have to keep in mind that these things are going to happen with or without NAFTA. With NAFTA, we are simply saying over

a period of time the trade barriers that are currently in existence relative to tariffs will be adjusted and the adjustments are going to be favorable to the U.S. manufacturers.

So when we talk about loss of jobs as a result of NAFTA, the jobs have already been lost to overseas. The jobs have been lost—yes, some to Mexico, but also the jobs have been lost to automation and lack of markets to sell the products here in the United States.

So we really, in all good conscience, need to separate NAFTA from, in my opinion, from the job market as it is being alluded to.

Ms. KAPTUR. Well, I can understand the gentleman's statement. I do view the current situation that has caused the movement of jobs down there, the limited free trade zone in the maquiladora area, as being the first step of what might happen if we are not careful.

The NAFTA agreement would cover all of Mexico, and the border region would be expanded because of the tariff changes that would occur. So I view the NAFTA as much more threatening than what has already occurred. I don't agree with what has already occurred.

In addition to that, in terms of our own international policies, I think it is fair to say that after World War II the United States was willing to export a lot of its jobs to Taiwan, Singapore, and the Philippines and other places because we were so concerned with the spread of communism and we were trying very hard to use our economic strength to build bridges through trade to other nations.

With the demise of communism and with the weakening of our own economy here at home, we have to look very hard at how we structure the economic incentives that we know are part of this economy as we move into the 21st century. I think the world looks a little bit different than it did 50 years ago. We ought to take a fresh look at how we develop public policy and allow the movement of our companies to other places, and perhaps pay a little more attention here at home where we know it is so severely needed.

Mrs. MALONEY. May I bring us back to the point that the purpose of this oversight hearing today is procurement jobs.

Do you feel that if NAFTA is enacted, we will lose procurement jobs and contracts?

What are our rights in terms of keeping our "Buy American" provisions, for example, and who defines "American" once this treaty or agreement is signed?

I would ask the committee how it defines "American." Does American include south of the United States-Mexico border? Does it include north of the United States-Canadian border?

I think our advertisers have been very clever to change "Made In The U.S." to "Packaged In America." I am very suspicious of labels as I look at them now and I think that the advertising world has moved ahead already, but I think it makes it more difficult for us. One of the questions I have with this treaty really is how strong are our Federal, State, and local laws dealing with procurement?

So I think that the Chair raises a very important question. I hope you will help us find an answer to it.

Mr. McCANDLESS. Thank you, Marcy. It has been nice talking with you.

Ms. KAPTUR. Thank you very much.

Mrs. MALONEY. Thank you, Marcy.

Our first panelist today is going to be Dr. Rufus Yerxa, and he will be followed by Ann Hughes.

Our first panelist this is morning is Ambassador Rufus Yerxa, Deputy U.S. Trade Representative. The Ambassador's responsibilities cover a wide range of trade policy issues, including GATT and the Uruguay Round negotiation, NAFTA, and numerous bilateral issues.

Welcome to the subcommittee.

I would also like to welcome our next panelist Ann Hughes, the Deputy Assistant Secretary of Commerce for the Western Hemisphere.

Secretary Hughes manages the Department's activities on trade and investment policy where she is presently a member of the United States negotiating team for the United States-Canada Free Trade Agreement. She also represents the Department of Commerce negotiations on the North American Free Trade Agreement as U.S. chair of the automotive working group.

Welcome to this subcommittee.

Our chairman has arrived, looks like his son in hand, to swear you in.

Mr. CONYERS [presiding]. Thank you so much, Mrs. Maloney for starting the proceedings for me. I apologize for being late.

Good morning to my colleagues on the committee and witnesses.

I thank you for your preparation and your appearance, Mr. Ambassador.

Would both of you stand, raise your right hand and take the witness oath.

[Witnesses sworn.]

Mr. CONYERS. Thank you very much for accommodating the committee, and you know the routine.

We have your prepared statements, so we would like to hear from you very much on this important subject.

STATEMENT OF RUFUS YERXA, AMBASSADOR, DEPUTY U.S. TRADE REPRESENTATIVE

Mr. YERXA. Thank you, Mr. Chairman.

I will be as brief as possible in my prepared—

Mr. CONYERS. Is your microphone turned on, sir?

Mr. YERXA. No, it is not.

I will be as brief as possible in my oral testimony and ask that my statement be made a part of the record.

I want to first of all thank you, Mr. Chairman, and the members of the committee on behalf of my boss, Ambassador Kantor and the administration for beginning these very timely hearings on the implications of NAFTA for programs under the committee's jurisdiction. We want to provide you with as much input and information as you require.

I thought it might be useful if, first of all, Mr. Chairman, I give a very brief status report on the administration's plan for completing the NAFTA supplemental agreements and submitting the NAFTA to the Congress, and then address some of the relevant aspects relating to procurement in the Federal sector.

Obviously, there are a number of other questions about the overall implications of NAFTA for the U.S. economy, for jobs, for our overall competitiveness, which I would be glad to discuss with you in questions and answers, as the committee deems appropriate.

I listened very carefully to Congresswoman Kaptur's testimony and to the dialog that has just occurred.

First of all, with respect to our plans for concluding the so-called side agreements on NAFTA, that is, the agreements on environment, labor, and import surges which the President has said he will conclude as an integral part of the NAFTA package and submit, together with the NAFTA agreement itself, with the implementing legislation, I just wanted to let you know that we will be conducting further negotiations over the next 2 weeks.

Ambassador Kantor is meeting with his Mexican and Canadian counterparts to conclude those agreements. The President has said that he wants strong environmental and labor agreements as a part of the overall package. We would hope to be in a position to submit those agreements together with the NAFTA, to the Congress in the early fall.

We recognize that there will need to be a prolonged period of consideration of draft-implementing legislation under the "fast track" with this committee and with other committees of jurisdiction, and that there will be a full debate. We also recognize that it will be incumbent on the administration to demonstrate the case for this agreement. We believe that as this debate proceeds, it will become clear why the administration supports a NAFTA agreement when supported by strong supplemental arrangements in these other areas.

As I said, we would be glad to talk about the case for NAFTA, but let me turn first, Mr. Chairman, to the procurement aspects of the agreement, which I know are of importance to the committee, and summarize for you briefly what we believe will be the implications of this agreement for procurement provisions.

First of all, I would like to start by saying that overall, the NAFTA government procurement provisions would offer significantly expanded opportunities for United States firms to do business in both Mexico and Canada. For the first time, it would cover trade in services which would create significant new opportunities for U.S. suppliers of construction, environmental, computer hardware, and software services. In addition, the NAFTA will give United States suppliers immediate and growing access to the Mexican Government procurement market, including the very, very significant procurement by the parastatal organizations, such as PEMEX and the state-owned electric utility.

This will benefit United States suppliers of oil and gas drilling machinery, petroleum drilling platforms, heavy electrical equipment and electronics, and it is a significant achievement as purchases by government-owned companies are significantly greater than the procurements of the Federal departments in Mexico.

At the same time, the NAFTA will expand the coverage of our procurement opportunities in Canada beyond those we currently enjoy under the free trade agreement with Canada. Canada will open its procurement market by government agencies and government-owned corporations not currently covered, for example, the

Canadian National Railway, VIA Rail, Canada Post, the Royal Canadian Mint, and the St. Lawrence Seaway Authority.

In addition, the NAFTA procurement chapter provides for improved procedures and increased transparency in the procurement process. Although that will require minimum changes in current United States procurement practice, it will require significant changes by Mexico in particular, to establish fair and open procurement procedures with such features as bid protest guarantees and the like.

I want to also stress that under the agreement, the United States will continue to maintain its small and minority business set-aside program in its present form, and this program is explicitly exempted from coverage under the agreement.

The NAFTA procurement chapter will provide some changes of "Buy American" restrictions at the Federal level and no change at the State level. Much of the United States Government market is already opened to Canadian goods, but as a result of NAFTA, "Buy American" restrictions applicable to Canadian goods will be waived for procurement by the four executive branch agencies that are not currently covered. Those are the Departments of Energy and Transportation, Bureau of Reclamation, the Department of Interior, and the Army Corps of Engineers.

With regard to Mexico, "Buy American" restrictions will be waived for procurement of goods by executive branch agencies for contracts valued at \$50,000 or more and for procurement of construction materials and supplies for contracts valued at \$6.5 million or more.

Now, with respect to the effect on State sovereignty, I want to make it very clear that the NAFTA procurement chapter does not currently cover State and subcentral level government procurement. The three countries agreed only to seek possible coverage of such entities in future negotiations which we agreed would commence no later than December 31, 1998, on further liberalization of our subcentral procurement markets. But while the Federal Government will be encouraging our States to join in such negotiation, this decision will be made on a voluntary basis by the individual States and only if the individual States agree to be included would they actually be covered by such future procurement agreements.

Last, Mr. Chairman, to comment briefly on the effects on the public sector, the administration does not anticipate direct employment effects from NAFTA on the public sector because the NAFTA does not replace, change, or eliminate U.S. Government functions or public services currently provided by U.S. Government employees.

I would stress that for the economy as a whole, I think the vast majority of the evidence strongly indicates that NAFTA will create many more jobs than are lost. A majority of the economists who have measured the labor effects of NAFTA have found it will result in increased jobs, increased wages, or both, and U.S. business experience certainly confirms the findings of these studies.

Since Mexico began to open its economy and prepare for NAFTA, the number of American workers producing merchandise exports to Mexico has risen from 274,000 in 1986, to an estimated 700,000 last year.

I would like to return just briefly to some of the comments that were raised by Congresswoman Kaptur, because I know for the Congress, this will be the essence of the debate. I think it is very important to look at the overall implications of this agreement for our bilateral trade with Mexico. Some would perhaps have you believe that the effect of this agreement is to substantially reduce the current barriers we have on goods coming to this country from Mexico and that will have substantial detrimental impact on United States jobs.

But the reality is that the far bigger reduction in barriers is by Mexico rather than the United States, because we have very low barriers on Mexico under current law. Fifty percent of Mexico's imports into the United States come in duty free already and our average tariff on imports from Mexico are only about 4 percent.

We have a minimum number of nontariff barriers on imports from Mexico, and Mexico's tariff barriers are about 2½ times higher than those of the United States. And more importantly, in very, very critical sectors, their nontariff barriers, that is their investment restrictions and other such restrictions, such as you mentioned in the automotive sector, Congressman McCandless, will be removed by the NAFTA.

And it is interesting, notwithstanding the current imbalance, the current unlevel playing field in our trade relationship with Mexico, we do enjoy almost a \$6 billion trade surplus. I do have to take issue with the facts that were presented by Congresswoman Kaptur, because our analysis shows that by far the fastest growing component of our current trade to Mexico is in the area of consumer goods, about 84 percent of the increase in recent years, and capital goods represent a declining portion of our exports to Mexico. In fact, capital goods, capital equipment is a smaller share of our exports to Mexico than it is of our exports to Japan and to Europe.

I also want to point out that many of these capital goods exports are products which I think many on this committee would consider to be absolutely critical to a strong economy. For example, engines for equipment, machinery, and buses in Mexico, is just one example of what is categorized as capital goods.

So if you look overall at the opportunities that the NAFTA will give us for expanded exports to Mexico and the minimal adjustments on the United States side of the border in really relatively few sectors of our economy, it is hard to come to any other conclusion than the fact that this is an agreement which has substantial benefits for the United States, and in particular, in creating what will be the largest market in the world, larger than the European Community, with significant strengthening of the overall climate for investment in North America, and improvement in our competitive relationship with Japan and with Europe.

So we think all of those facts ought to be taken into consideration by the committee.

I thank you for scheduling this hearing, Mr. Chairman. I know there will be many others before the NAFTA is concluded and we look forward to working with you.

Mr. CONYERS. Thank you very much.

[The prepared statement of Mr. Yerxa follows:]

TESTIMONY OF AMBASSADOR RUFUS YERXA
DEPUTY UNITED STATES TRADE REPRESENTATIVE

BEFORE THE SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY
COMMITTEE ON GOVERNMENT OPERATIONS
U.S. HOUSE OF REPRESENTATIVES

July 27, 1993

Mr. Chairman, I welcome the opportunity to appear before the Subcommittee on Legislation and National Security today to discuss the Government Procurement effects of the North American Free Trade Agreement, and the status of the Administration's efforts with respect to NAFTA.

NAFTA, Jobs and the U.S. Economy

The Clinton Administration supports the NAFTA strengthened by the supplemental agreements that we are negotiating, as well as by related domestic initiatives on border cleanup and worker adjustment and retraining. The case for NAFTA can be summarized as follows:

- NAFTA will create the biggest market in the world right at our doorstep: a \$6.5 trillion market with 370 million people.
- NAFTA will level a playing field that remains -- despite recent Mexican market openings -- substantially tilted in Mexico's favor. Mexico's tariff barriers to U.S. goods are still 2.5 times greater than our own. All tariffs will be phased out under NAFTA.
- NAFTA will expand benefits the United States has enjoyed since Mexico began to open its markets in 1986. U.S. merchandise exports to Mexico have risen by 228 percent since 1986, reaching \$40.6 billion in 1992.
- U.S. jobs supported by these merchandise exports rose from 274,000 in 1986 to an estimated 700,000 in 1992 -- and these jobs are in all 50 states. Merchandise exports to Canada support another 1.5 million U.S. jobs.
- NAFTA will create an estimated 200,000 additional high wage jobs related to exports to Mexico by 1995.
- NAFTA will increase opportunities for American firms to sell to Mexico. Those opportunities are especially important for small and medium size businesses that cannot readily overcome high Mexican tariff and non-tariff barriers.
- Mexico is already our second largest market for manufactured exports, trailing only Canada. NAFTA will further increase opportunities for manufactured exports in Mexico.

- NAFTA and its supplemental agreements will help us promote sustainable development in North America -- economic growth with enhanced environmental protection.
- NAFTA will gradually ease many of the economic pressures in Mexico that currently contribute to illegal immigration across our border.

NAFTA and Government Procurement

Provisions

The NAFTA Government Procurement provisions offer significantly expanded opportunities for U.S. firms to do business in Mexico and Canada. Coverage of trade in services for the first time will create opportunities for U.S. suppliers of construction, environmental and computer hardware and software implementation services.

NAFTA will give U.S. suppliers immediate and growing access to the Mexican government procurement market, including procurement by the state-owned petroleum company, PEMEX, and the state-owned electric utility, CFE. This will benefit U.S. suppliers of oil and gas drilling machinery, petroleum drilling platforms, heavy electrical equipment and electronics. This is a significant achievement as purchases by government-owned companies are significantly greater than the procurements of the federal departments in Mexico.

Canada will expand coverage beyond the U.S.-Canada Free Trade Agreement (CFTA). Canada will open its procurement by government agencies and government-owned corporations not covered by the CFTA or the existing GATT Procurement Code, such as the Canadian National Railway, VIA Rail, Canada Post, the Royal Canadian Mint, and the St. Lawrence Seaway Authority. In addition to goods, Canada will cover the procurement of many services, including construction services, environmental services and various types of computer hardware and software implementation services, resulting in substantially increased U.S. exports.

The NAFTA government procurement chapter provides for improved procedures and increased transparency in the procurement process. Although minimum changes will be necessary in U.S. or Canadian government procurement practices, significant changes will be required in Mexico.

Canada and Mexico will establish procurement procedures to notify U.S. suppliers of procurement opportunities and to allow them to compete on an equal footing with domestic bidders on contracts covered by the NAFTA government procurement chapter. A bid challenge mechanism will enable bidders to have the bidding process reviewed to make sure that they have not been discriminated against. U.S. businesses have the right to challenge both contract tendering and awards. An independent body will review each case brought before it and recommend action to resolve the case.

Under the NAFTA dispute settlement procedures, the U.S. Government is able to challenge implementation of the agreement, procedures, and the contract awards before an impartial dispute settlement panel. For covered procurements, NAFTA prohibits the use in government contracts of "offsets." U.S. suppliers will be able to bid on NAFTA government contracts without this type of discriminatory condition being attached.

The U.S. will continue to maintain its small and minority business set-aside program in its present form -- this program is explicitly exempted from coverage under the agreement. The chapter establishes a mechanism for joint efforts by the United States, Canada and Mexico to promote government procurement opportunities for small business.

Relationship to "Buy America" Provisions

The NAFTA Procurement Chapter will require some change of Buy America restrictions at the Federal level and no change at the state level. Much of the U.S. government market is already open to Canadian goods under the CFTA.

As a result of NAFTA, Buy America restrictions applicable to Canadian goods will be waived for procurement by the four executive branch agencies that are not currently covered by the CFTA (Departments of Energy and Transportation, the Bureau of Reclamation in the Department of the Interior and the Army Corps of Engineers). In addition, with respect to Canada, Buy America restrictions applicable to the procurement by executive branch agencies of construction materials and supplies will be waived for contracts valued at \$6.5 million or more.

With regard to Mexico, Buy America restrictions will be waived for procurement of goods by executive branch agencies for contracts valued at \$50,000 or more and for procurement of construction materials and supplies for contracts valued at \$6.5 million or more. In addition, only with respect to Mexico, Buy America restrictions applicable to procurement by the six federally-owned electric utilities will be waived for contracts valued at \$250,000 or more for goods and \$8 million for construction materials and supplies. (Buy America provisions

will continue to apply to procurement by the federal utilities of goods and construction materials and supplies from Canada until Canada opens procurement by its government-owned utilities to U.S. goods and suppliers.)

No change to U.S. law is necessary with respect to procurement of services since Buy America does not apply to services contracts.

Effect on State Sovereignty Issues

The NAFTA government procurement chapter does not currently cover state and subcentral-level government procurement.

The three countries agreed only to seek possible coverage of subcentral procurement as part of negotiations to commence no later than December 31, 1998 on further liberalization of their government procurement. In the event that a new GATT Agreement on Government Procurement is concluded prior to those negotiations, the Parties agreed to discuss inclusion of state and sub-central government at that time. In either case, each country is committed only to consulting with its state or provincial governments with a view to obtaining voluntary and reciprocal commitments to include their procurements within the scope of the NAFTA. While the Federal Government will be encouraging all states to join, this decision will be made on a voluntary basis by the individual states.

NAFTA's Effect on the Public Sector

We do not anticipate any direct employment effect from NAFTA on the public sector because NAFTA does not replace, change or eliminate U.S. government functions or public services currently provided by U.S. government employees. NAFTA offers opportunities for U.S. business to compete for Mexican and Canadian government procurements, but does not open up the U.S. government workforce to foreign competition.

For the U.S. economy as a whole, NAFTA will create many more jobs than are lost. A majority of the economists who have measured the labor effects of NAFTA have found it will result in increased jobs or increased real wages -- or both. U.S. business **experience** confirms the findings of these studies. Since Mexico began to open up its economy and prepare for NAFTA, the number of American workers producing merchandise exports to Mexico has risen from 274,000 in 1986 to an estimated 700,000 last year. With NAFTA we anticipate 200,000 more export-related jobs by 1995. Wages of U.S. workers in jobs related to exports to Mexico are 12 percent **higher** than the national average.

The number of positions that will be lost due to NAFTA is likely to be very small relative to other changes in the U.S. economy such as defense conversion and technological changes. American workers are strongly competitive in world markets; U.S. barriers to imports from Mexico are already very low; and Mexico's productive capacity is very small relative to that of the United States and will -- even with healthy growth -- remain so for decades to come.

While the Administration believes that the net benefits from NAFTA are clear, we recognize that some U.S. workers will suffer dislocation even though the U.S. tariff reductions in sensitive sectors are phased in slowly. For any U.S. worker who is in fact displaced by NAFTA, the Administration is committed to a comprehensive assistance program to assist workers who may lose their jobs due to changing market conditions.

Conclusion

I recognize that NAFTA remains the subject of great controversy. The Administration bears the burden of convincing Congress and the country that NAFTA is in the national interest. I believe that as the debate progresses, NAFTA will come to be seen as an important part of building a stronger, more competitive U.S. economy.

I would be pleased to answer questions from members of the Subcommittee. Thank you.

Mr. CONYERS. Deputy Assistant Secretary Hughes, we are delighted to have you here. You are representing my friend, the Secretary of Commerce, and we would like to have you follow on and feel free to make any comments about anything you have heard in the testimony that preceded you, because we don't want to have segmented presentations where we pretend that the other—no one else has said anything about the subject.

So again, welcome to the subcommittee this morning.

STATEMENT OF ANN H. HUGHES, DEPUTY ASSISTANT SECRETARY, WESTERN HEMISPHERE, INTERNATIONAL TRADE ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE

Ms. HUGHES. Thank you very much, Mr. Chairman. I would like to thank you and the committee for giving me the opportunity to appear before you today and give you some—

Mr. CONYERS. Turn your mike just a little closer toward you.

Ms. HUGHES. To appear and to present the views of the Department. I might add that it is an honor to represent Secretary Brown here today.

What I would like to talk about are three things: The benefits of the agreement; also the issues of the government procurement provisions; and the State sovereignty issues.

Let me begin first by talking about the benefits.

I would like to have my entire presentation entered for the record, but I will summarize it now for the benefit of the committee.

Mr. CONYERS. Without objection, your testimony and that of all of the witnesses will be entered fully into the record.

Ms. HUGHES. Thank you, Mr. Chairman.

NAFTA's benefits we feel will derive from a dramatic restructuring of the Mexican economy. Within 15 years, all of Mexico's still very significant tariffs will be completely eliminated. Within 10 years, virtually all import licenses, which act as restrictive quotas, will be gone.

Significant barriers to cross-border trade and services will be eliminated. Investment regulations which force the transfer of manufacturing jobs, capital and technology, to Mexico from the United States will be abolished, as Mr. McCandless indicated so clearly earlier in his comments to Congresswoman Kaptur. For the first time, United States firms will have guaranteed access to Mexico's extremely lucrative government procurement market estimated at \$18.8 billion in 1990.

At the Commerce Department, we have dozens of stories from United States companies demonstrating that trade with Mexico generates benefits and jobs in the United States. For example, Cal-State Lumber, the largest Hispanic-owned company in California, has seen its sales to Mexico expand from \$14 million in 1989 to an estimated \$180 million this year. Cal-State is a broker of lumber products and its booming sales to Mexico keep United States mill workers employed.

And lest there be doubts that only the border States will gain from NAFTA, let me share with you the expectation of Tri-City Port in Granite City, IL, suffering so much currently from the flood. Tri-City expects significant growth in barge trade on the

United States inland waterway system, the heart of which is the Mississippi River as Mexico, United States, and Canadian economies expand under free trade.

Tri-City's 3 million tons of annual shipments amount to 5,000 jobs created or sustained on U.S. soil. For each increase of 600 tons, one new job is created. Throughout the next decade, Tri-City officials expect increased trade with Mexico to create and sustain thousands of jobs as cost-effective modes of transportation along the inland waterway system are developed.

In addition, the increased tonnage expected from NAFTA should help the region recover from the devastation—from the disastrous flood of 1993.

I would like to turn now to the "Buy American" provisions which are of major interest to this committee.

Under NAFTA, the United States did preserve sensitive exceptions negotiated under the GATT Agreement on government procurement and the United States-Canadian Free Trade Agreement. NAFTA allows us to maintain specific "Buy American" provisions, such as the U.S. small business set-aside program, minority set-asides, and the so-called Berry amendment, which is the Defense Department procurement of textiles, shoes, and other goods.

In addition, NAFTA does not cover procurement at the State and local level. Parties have agreed to further negotiation before the end of 1998, to seek to expand coverage of the agreement. Parties will consult with State and local governments in an effort to gain their voluntary coverage, and I might add that those negotiations not only have to be voluntary on the part of the States, but they have to be reciprocal on the part of the Mexicans and the Canadians.

NAFTA opens a significant portion of the government procurement markets in the United States, Mexico, and Canada by eliminating discriminatory buy national purchasing requirements on a wide range of procurements of goods, services, and construction. Virtually all Federal Government agencies' procurement is covered for each NAFTA party, as well as procurement by a significant number of Federal Government enterprises, with the exceptions I just noted.

Mexico, which is not a signatory of the GATT code, is for the first time undertaking an international commitment to open guaranteed access to its government procurement market. And this is not—this is not supplementary, because since Mexico is not a member of the code, we have not had the access that we have, for example, in Canada.

I would also point out that Congresswoman Kaptur did note that by and large the United States Government procurement market is already open to international competition, so by opening the Mexican market, we are gaining a net advantage that is not available to us today.

The second issue the committee specifically asked about is the effect of NAFTA on State sovereignty. Since Commerce negotiated the relevant NAFTA provisions on insurance, let me address that sector specifically.

In the United States, the individual State insurance regulators, not the Federal Government, regulate insurance. The NAFTA rec-

ognizes the need for prudential regulation of all financial services, including insurance and the sovereignty of the States and their regulation of insurance is unchanged under the NAFTA. The NAFTA establishes a comprehensive principles based approach to disciplining of government regulation of financial services.

The principles include the right of the NAFTA parties to regulate their financial services sectors for prudential reasons. Our other principles include the right to establish operations in the other NAFTA countries, and receive national treatment; the ability to provide cross-border trade and financial services; and the discretion to hire senior management and other personnel regardless of their nationality. Once NAFTA is implemented, State regulation of the insurance industry will, of course, have to conform with applicable NAFTA provisions. However, where States currently have regulations that do not comply with the NAFTA, the agreement provides for the ability of the parties to continue to enforce these non-conforming measures, provided they are properly identified.

We are working with State regulators to identify their existing nonconforming measures for incorporation into U.S. Government reservations by January 1, 1994, for six States, including California, Florida, Illinois, New York, Ohio, and Texas. Reservations for the other States need to be taken by the end of 1995.

The NAFTA assigns responsibility for dispute settlement involving insurance matters to the Department of Commerce. Once the NAFTA enters into force, Commerce will continuously monitor developments within Mexico and Canada to assure their compliance with the various NAFTA liberalizations in the insurance sector.

That concludes my remarks, and I would be happy to answer any questions the committee might have.

[The prepared statement of Ms. Hughes follows:]

TESTIMONY OF
ANN H. HUGHES,
DEPUTY ASSISTANT SECRETARY
FOR THE WESTERN HEMISPHERE,
U.S. DEPARTMENT OF COMMERCE,
BEFORE THE
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
JULY 27, 1993

I would like to thank the Committee for the opportunity to discuss the North American Free Trade Agreement (NAFTA), and the benefits that will accrue to the United States from this historic agreement.

NAFTA represents important gains for the U. S. economy, for our workers, for our consumers and for the environment. Let me address each of these areas in turn.

The evidence continues to mount that NAFTA will be good for the U.S. economy and U.S. workers. The most recent study to come to this conclusion was prepared by the Congressional Budget Office and was entitled A Budgetary and Economic Analysis of the North American Free Trade Agreement. Like numerous studies before it, the CBO study concluded that NAFTA's "net effect on the U.S. economy would be positive."

These benefits will derive from a dramatic restructuring of Mexico's economy. Within 15 years, all of Mexico's still significant tariffs will be completely eliminated. Within ten years, virtually all import licenses, which act as restrictive quotas, will be gone. Significant barriers to cross-border trade in services will be eliminated. Investment regulations that force the transfer of manufacturing jobs, capital and technology to Mexico from the United States will be abolished. For the first time, U.S. firms will have guaranteed access to Mexico's extremely lucrative government procurement market, estimated at \$18.8 billion in 1990.

This restructuring will create new export opportunities for U.S. firms. Since Mexico unilaterally began reducing its tariffs and removing trade barriers in 1987, U.S. exports have more than doubled. Because Mexican tariffs are still two and one half times higher on average than U.S. tariffs, we expect further increases in U.S. exports as tariffs and remaining barriers are eliminated.

Increased exports generate jobs, which means NAFTA will provide significant benefits to U.S. workers. As the CBO concluded, credible economic analysis points to an overall increase in U.S. employment and income from NAFTA. While there is the potential for job displacement in certain sectors, especially those that are highly labor-intensive, we expect these effects to be small and gradual.

To put the impact of NAFTA in perspective, the United States economy currently supports 120 million jobs. During the decade of the 1980's, an estimated 20 million U.S. workers

lost their jobs. The CBO study estimates that NAFTA could potentially lead to job dislocation on the order of one percent of what we experienced in the 1980's. And even these losses would be more than made up by the job and income creating effects of the Agreement.

Jobs created by NAFTA will generally be high-wage jobs. USTR estimates that jobs linked to exports to Mexico pay 12 percent more than the average U.S. wage; similarly, virtually all economic studies conclude that NAFTA will increase the average wage of U.S. workers.

NAFTA will neither force nor encourage U.S. manufacturing facilities to relocate to Mexico. Any company that believes that Mexico's low wages represent a better manufacturing location is free to go to Mexico right now. In addition, some U.S. manufacturing facilities, such as auto assembly and parts plants, are being forced to relocate to Mexico by existing Mexican trade and performance requirements. NAFTA eliminates the incentives that the Mexican Government has been using to force jobs to Mexico.

In contrast, the United States has very few changes to make to bring our laws and regulations into compliance with NAFTA. We are an open economy, and have very few barriers to eliminate. We compete every day with markets, like Mexico's, that are well-protected by tariff and non-tariff barriers. NAFTA creates the much-sought after, but rarely achieved, "level playing field."

We have dozens of stories from U.S. companies demonstrating that trade with Mexico generates benefits and jobs in the United States. For example, Cal-State Lumber, the largest hispanic-owned company in California, has seen its sales to Mexico expand from \$14 million in 1989 to an estimated \$180 million this year. Cal-State is a broker of lumber products, and its booming sales to Mexico keep U.S. mill-workers employed.

And lest there be doubts that only the border states will gain from NAFTA, let me share with you the expectation of the Tri-City Port in Granite City, Illinois. It expects significant growth of barge trade on the "Avenue of the Americas,"--the U.S. inland waterway system, the heart of which is the Mississippi River--as Mexican, U.S. and Canadian economies expand under free trade. Tri-City's 3 million tons of annual shipments amount to 5,000 jobs created or sustained on U.S. soil. For each increase of 600 tons, one new job is created. Throughout the next decade, Tri-City officials expect increased trade with Mexico to create and sustain thousands of jobs as cost-effective modes of transportation along the inland-waterway system are developed.

The Committee has expressed the concern that NAFTA could result in a decrease in tax revenues, and a loss of employment in the public sector. However, since we estimate that NAFTA will lead to net job and income creation in the United States, we would expect NAFTA to have precisely the opposite effect. I see no negative impact on public sector employment in the United States.

NAFTA also contains benefits for the American consumer. Because every individual is a consumer at some point in the chain, these benefits will accrue to all of the United States' approximately 255 million citizens. Lower tariffs and increased economies of scale should result in very competitive prices for consumer goods ranging from processed foods to refrigerators and computers. We also expect NAFTA to exert upward pressure on health and safety standards, as Mexico, Canada and the U.S. seek to develop common standards at the level of the highest common denominator, creating safer goods for U.S. consumers.

Finally, NAFTA, especially strengthened by strong supplemental agreements, is good for the environment. Studies indicate that Mexico has reached the point in its economic development where continued growth will result in a decrease in overall pollution levels. The more prosperous Mexico becomes from North American free trade, the more it will be able to devote ever increasing resources to preserving the environment. The NAFTA supplemental agreement on the environment, approaching completion, will ensure the enforcement of all three countries' environmental laws.

There were two other specific issues that the Committee wished to address. The first is the effect on U.S. "Buy America" provisions of the NAFTA.

Under NAFTA, the United States did preserve sensitive exceptions negotiated under the GATT Agreement on Government Procurement (the Code) and the U.S.-Canada Free Trade Agreement (CFTA). NAFTA allows us to maintain specific "Buy America" provisions, such as the U.S. small business set-aside program, minority set-asides, and the so called "Berry Amendment"-- Defense Department purchase of textiles, shoes and other goods.

In addition, NAFTA does not cover procurement at the state and local level. Parties have agreed to further negotiations before the end of 1998 to seek to expand the coverage of the agreement. Parties will consult with state and local governments in an effort to gain their voluntary coverage.

NAFTA opens a significant portion of the government procurement markets in the United States, Mexico, and Canada by eliminating discriminatory "buy national" purchasing requirements on a wide range of procurements of goods, services, and construction. Virtually all federal government agencies' procurement is covered for each NAFTA Party, as well as procurement by a significant number of federal government enterprises.

For the United States and Canada, NAFTA opens more procurement opportunities by expanding on the GATT Agreement on Government Procurement (the Code) and the United States-Canada Free Trade Agreement (CFTA), covering Canada's remaining federal agencies and key federal government enterprises, as well as services and construction procurement for the first time.

Mexico, which is not a signatory to the GATT Code, is for the first time undertaking an international commitment to open guaranteed access to its government procurement market.

Under NAFTA, U.S. suppliers gain access to purchases by Mexican Government enterprises, including growing access to PEMEX and CFE in the energy sector, which represent a significant share of Mexico's government procurement and are key players in the Mexican economy. Though NAFTA opens U.S. goods procurement to Mexico for the first time, its suppliers will have to compete with suppliers from other strong U.S. trading partners for procurement already covered by the Code.

For covered NAFTA government procurement, designated federal government entities in each country will treat goods and services, and suppliers of goods and services, from another NAFTA country no less favorably than domestic goods, services, and suppliers. Also, entities will not discriminate among goods, services or suppliers of the other NAFTA countries. The agreement also prohibits the use of discriminatory "offset" practices such as requirements for local content or technology licensing. NAFTA requires transparent, competitive procedures and a bid challenge system to allow suppliers to challenge procurement procedures or contract awards.

Attached to my testimony is a summary of what government contracts are and are not covered under NAFTA.

The Government Procurement provisions of NAFTA will benefit a wide range of U.S. companies whose products and services are needed by governments. U.S. suppliers of petroleum equipment, heavy electrical equipment, communications and computer systems, electronic, steel and pharmaceutical products will particularly benefit from these provisions.

In addition, coverage of trade in services for the first time will result in increased opportunities for U.S. suppliers of services, including construction and related services, environmental services and various types of computer hardware and software implementation services.

I would like to share one more company story that demonstrates the benefits to the U.S. of access to government contracts. Environmental Systems Products, based in Connecticut, designs and manufactures motor vehicle emissions testing and inspection systems. In July, 1992, ESP won the emissions inspection and maintenance contract for the world's largest Metropolitan Area -- Mexico City. The contract will result in up to \$10 million in new sales. ESP also won a supplier contract worth half a million dollars for Guadalajara, Mexico's second largest city.

To keep up with demand generated by its Mexico contracts, ESP is increasing its production capabilities by hiring 25 new Connecticut-based employees. Most of these jobs are in high paying technical and engineering areas. The company's new sales to Mexico will dramatically increase its purchases of raw materials from U.S. suppliers.

The government procurement provisions of NAFTA will ensure that other U.S. suppliers of goods and services will be guaranteed the right to bid on contracts like this one. And it will

ensure that U.S. firms will be awarded those contracts on the basis of their bid under competitive procedures.

The second issue the Committee specifically asked about is the effect of the NAFTA on state sovereignty. Since Commerce negotiated the relevant NAFTA provisions on insurance, let me address that sector specifically.

In the U.S., the individual state insurance regulators--not the Federal government--regulate insurance. The NAFTA recognizes the need for prudential regulation of all financial services, including insurance, and the sovereignty of the states in their regulation of insurance is unchanged under the NAFTA.

The NAFTA establishes a comprehensive principles-based approach to disciplining government regulation of financial services. The principles include the right of the NAFTA Parties to regulate their financial services sectors for prudential reasons. Other principles include the right to establish operations in the other NAFTA countries and receive national treatment, the ability to provide cross-border trade in financial services, and the discretion to hire senior management and other personnel regardless of their nationality.

Once NAFTA is implemented, state regulation of the insurance industry will, of course, have to conform with applicable NAFTA provisions. However, where states currently have regulations that do not comply with the NAFTA, the Agreement provides for the ability of Parties to continue to enforce these nonconforming measures, provided they are properly identified.

We are working with the state regulators to identify their existing nonconforming measures for incorporation into USG reservations by January 1, 1994 for six states (California, Florida, Illinois, New York, Ohio and Texas); reservations for the other states need to be taken by the end of 1995.

The NAFTA assigns all responsibility for dispute settlement involving insurance matters to the Department of Commerce. Once the NAFTA enters into force, Commerce will continuously monitor developments within Mexico and Canada to assure their compliance with the various NAFTA liberalizations in the insurance sector. We will coordinate closely with insurance regulators (and other groups) about any problems encountered and take appropriate steps to address any issues of concern. Although the NAFTA precludes regulators from serving on a dispute settlement panel, we have provided for consultations and input by the state insurance regulators (and other groups) throughout the process to adequately address any issues of concern in the event a dispute arises.

It has been my pleasure to discuss the NAFTA today, to clarify the facts about what the Agreement will do, and to describe the benefits that will flow to the United States from this ground-breaking Agreement. Thank you.

NAFTA GOVERNMENT PROCUREMENT COVERAGE

The NAFTA Government Procurement Chapter applies only to:

1. purchases by specified federal government agencies and federal government-controlled enterprises in each NAFTA country;
2. for federal government agencies, purchases of goods and services of 50,000 and over (for goods purchases already covered by the CFTA the \$25,000 threshold will continue to apply) and purchases of construction services of \$6.5 million and over; and
3. for government-controlled enterprises, purchases of goods and services of \$250,000 and over and purchases of construction services of \$8 million and over.

The NAFTA Government Procurement Chapter does not apply to:

1. purchases under small or minority business set-aside programs;
2. purchases by state and local governments, including purchases made with federal funds;
3. procurement of arms, ammunition, or war materials, or national security procurement;
4. certain items purchased by the Department of Defense, including those subject to Berry Amendment restrictions;
5. purchase by the Department of Agriculture for farm support programs and human feeding programs;
6. purchases of certain services, including research and development, specified telecommunications services, transportation services, and dredging services;
7. measures necessary to protect public morals, order or safety; human, animal or plant life or health; intellectual property; or relating to goods or services of handicapped persons, of philanthropic institution or of prison labor.
8. purchases by the Agency for International Development for the purpose of providing foreign assistance (purchases not for the direct benefit or use of AID).

Mr. CONYERS. Thank you very much for your comments and they are very helpful and I would like to ask my friend, Mr. McCandless, to begin any questions or comments that he might have.

Mr. MCCANDLESS. Thank you, Mr. Chairman. Mr. Yerxa, our fast track approval for the NAFTA agreement runs out on December 31, unless there is something here that I am missing, which would indicate that if we want the fast track for NAFTA it is going to have to take place before adjournment of Congress this year. Is that correct?

Mr. YERXA. Congressman, I must admit even for people who sort of spend every day trying to figure out how to meet the fast track deadlines, it is a confusing process, but my understanding of it is as follows: The recent extension of authority by the Congress for fast track only applies to the completion of a Uruguay Round agreement. The NAFTA qualifies for fast track treatment by the Congress because it was signed prior to the expiration of the previous fast track authority, and therefore the President currently has the authority to submit to the Congress legislation and have it treated under fast track rules, conceivably even beyond this year, but as a practical matter, consideration of NAFTA beyond this year would be exceedingly difficult.

The administration believes that the goal should be to have the NAFTA enter into force on the date specified under the agreement, which is January 1, 1994, which would mean that the Congress would have to consider the legislation this fall. Otherwise that, of course, would require a change in the date of the agreement.

So our expectation is to submit this to the Congress this fall and ask for consideration of it before the end of the year.

Mr. MCCANDLESS. Another little sticky wicket here is the administration has asked a Federal circuit court for emergency appeal of the June 30 decision by the lower court requiring an environmental impact statement for NAFTA. Does the term "emergency appeal" denote specific actions in terms of its treatment by the court and the parties involved in this suit? What are the prospects for a successful and negotiated implementation or implemented NAFTA with the lawsuit pending the ruling of the court?

Mr. YERXA. Well, the administration has requested and received an expedited appeal of the district court ruling. We expect that appeal to be heard and decided by early September. We do not agree with the lower court's decision and it has not and will not affect the schedule for consideration and implementation of the NAFTA. The lower court ruling asks for the administration to submit an environmental impact statement. The basis for the appeal, of course, is something that I am perhaps not competent to address, but we believe that this type of agreement is not one that is covered by the requirements of the NEPA and that will be the basis for the appeal, but it will not affect the timetable for consideration or submission of the NAFTA by the administration.

Mr. MCCANDLESS. In your opinion, what are the potential ramifications to Mexico politically and economically if NAFTA is not enacted?

Mr. YERXA. I think it has been borne out by quite a bit of analysis that there would be a significant impact on investor confidence in Mexico, and Mexico has done a great deal in recent years to lib-

eralize and modernize its economy, open it up to deregulation and a great deal of investment has come to Mexico as a result of that. No one can gauge precisely what, in numerical terms, the impact would be, but we do believe that it could have a significant impact on investment in Mexico, on the strength of the Mexican economy, and consequently on our potential export market to Mexico.

The analysis we have done would indicate that with a successful NAFTA, we are likely to see substantial increases in exports to Mexico by 1995 resulting in our estimate in approximately 200,000 more jobs in the United States as a result of increased exports. With the defeat or failure of NAFTA, I think we would have to anticipate a reduction. I don't know if it would be a reduction of similar proportions to the possible increase, but it could certainly be a loss of exports to Mexico of as much as a quarter to half of our current export volume if the Mexican economy is significantly shaken by the defeat of NAFTA.

Mr. MCCANDLESS. There are some costs that have been attributed to the agreement. How does the administration plan to pay for these costs and would there be assistance on the part of the private sector in the overall adjustments and costs of implementation of the agreement?

Mr. YERXA. This is a matter that is currently being discussed internally within the administration. I can't present to you, Congressman, at this moment the precise plan we would have for meeting the costs associated with a NAFTA program, but the President has been very clear that, in his view, this entire package would have to be accompanied by a substantial program for worker adjustment to handle any dislocation problems, as well as adequate funding for border cleanup. There are some other revenue implications. I think at the time we present the package, the administration expects to have answers to those questions for you.

Mr. MCCANDLESS. Does the current administration agree with the assertion of former U.S. Trade Representative Carla Hills that for every billion dollars in exports, 20,000 jobs are created and that the new jobs pay on an average 17 percent more than the rest of employment?

Mr. YERXA. The figures are somewhat different. Our analysis, our current analysis is based on a wage differential between the average manufacturing wage in the United States and the wage for those engaged in exports to Mexico, a differential of about 12 percent, 12 percent higher for the export-related jobs. The best calculation we have I think is about 18,000 jobs for each \$1 billion in exports.

Mr. MCCANDLESS. I am sorry.

Mr. YERXA. 18,000 to 19,000. It is something like that. There is an adjustment for inflation that I don't quite understand, but the figures aren't far off from those you gave.

Mr. MCCANDLESS. Secretary Hughes, in your written statement, you deal with State sovereignty and State regulation of the insurance industry. Would you explain in greater detail that portion that you have referred to?

Ms. HUGHES. Well, the States have a responsibility to their citizens to maintain the integrity of their insurance industry, and therefore they set prudential requirements on the companies oper-

ating within their States. The NAFTA acknowledges explicitly that the States have that responsibility and that right, and that the NAFTA does not abridge their ability to carry out those responsibilities.

As I mentioned, there is an interest in seeing that there are some possibilities for—excuse me a moment, Mr. McCandless.

Mr. MCCANDLESS. I think you are on page 5 or thereabouts, the fifth paragraph down.

Ms. HUGHES. There are some provisions of the NAFTA that apply to providing national treatment for insurance companies operating from a party into a State in the United States or into a State in Mexico or province in Canada, and the States which have regulations that do not comply with those principles, for example, the right to establish an insurance company, that meets the requirements of the State. The States will have to identify those nonconforming provisions that they wish to continue.

Now, they may wish to extend the—those same benefits to the companies from the other countries. If they want to do so, then that should be done on a reciprocal basis. If they want to continue to maintain those nonconforming provisions, then under the NAFTA they can do so as long as they are properly identified, and the agreement provides that for six States, those reservations have to be identified by January 1, 1994, and for the remaining States, by the end of 1995.

Mr. MCCANDLESS. Let me come back at you with a situation. I have an insurance company, we will say, in State X. State X has an insurance procedure that oversees the operation of my insurance company as well as others, and the State laws prevail relative to the operation of the insurance business in that State. Are we saying then that the State sovereignty would prevail if NAFTA were approved and that any arrangement between that State's insurance company and Mexico or any arrangement between a Mexican insurance company and that State would have to meet the State requirements or the State could, through its legislative or other process, waive certain things or make adjustments, but it would be the State's option rather than an oversight of NAFTA that would predominant State law?

Ms. HUGHES. That is correct. The State sovereignty is preserved—

Mr. MCCANDLESS. Do I understand it correctly?

Ms. HUGHES. Yes, you do. The State sovereignty is preserved under the NAFTA. If the State wishes to—NAFTA establishes principles that there should be the right to establish operations in all three countries, insurance operations in all three countries. However, it does provide that if a State doesn't wish to extend those principles and has nonconforming regulations on its books, it may continue those if it chooses.

Mr. MCCANDLESS. Thank you. Would you describe some of the general findings of the work the Department of Commerce has done on a State-by-State as far as exports to Mexico are concerned?

Ms. HUGHES. Well, we have done some studies on State-by-State exports. I did not bring those figures with me, but we could certainly make them available to you for the record. I believe among the most important findings was that over the last few years, 48

of the 50 States have enjoyed increased exports to Mexico as a result of the liberalizations that have already occurred.

Mr. McCANDLESS. Thank you very much, Secretary. Thank you, Mr. Chairman.

Mr. CONYERS. Thank you very much, Mr. McCandless.

I have got a lot of questions I am going to send you, but for purposes of our discussion here today, what is it that friends of this administration don't seem to grasp in terms of the benefits that will be reaped by the American work force, small businesses, that seem to make this, as Al McCandless described, such a sticky wicket? What is the problem here?

We are talking about some of the best friends of this present administration having some serious reservations about a subject matter that we ought to all be walking down the middle of the road together, yet we have—even at this hearing, we have those who are more likely to be critical of the administration supporting this program and all your best friends are sort of side stepping and have a lot of deep and varied concerns. How can you help us who work closely with this administration start getting the troops in shape? We are running out of time. Quite frankly, there is no way in the world we are going to resolve this question in the calendar year 1993. We are going out in a few days. We won't be back until after Labor Day. You need 30 days. So how you squeeze that in plus a couple of levels of judicial appeal to the Supreme Court is something I won't bother you with at this moment, but how do we sell this elephant or turkey or whatever it is? I mean, what is it that we don't get that some people understand?

Mr. YERXA. Mr. Chairman, I recognize that there is a significant discussion and discourse between the administration and the Congress which has to take place which will, I believe, help to clarify in everyone's minds the facts associated with this agreement, the relative benefits and drawbacks of it.

Now, in the final analysis, the Congress obviously has to make the judgment and the President has to make the case to the Congress, and I believe that a lot of that process still has to take place. It is just beginning really. But I think as we go into that process, it is going to be very important not to compare the NAFTA to our concept of perfection or nirvana, but to compare the NAFTA to what our current trade relationship is today, and I believe that if you make that comparison, if you examine it very carefully, you will come to some dramatically different conclusions than if you compare it to perfection.

First of all, under our current trading relationship with Mexico, I would argue that we have made some very, very significant mistakes in the past, and I think the presentation that Congresswoman Kaptur gave us based on what she has seen happen in her State, in her district, under our existing unlevel playing field with Mexico, because we adopted a maquiladoras program which allowed Mexico to maintain very, very high restrictive barriers on United States exports going to Mexico while at the same time giving them substantial benefits to bring products into the United States utilizing labor in Mexico.

The NAFTA significantly changes that and it essentially eliminates that program. It provides for an open market in both coun-

tries rather than an open market simply in the United States as we have today, and I think if you base the comparison on that analysis rather than on what we might consider to be a perfect agreement with immediate elimination of all barriers, I think you come to a different conclusion.

The fact is that very few United States goods in comparison to our overall imports from Mexico enjoy tariff or nontariff barriers today. On the other hand, our exports to Mexico face barriers in virtually every important sector, and the NAFTA levels that playing field in a very, very significant way. Now, you know, a lot of the critics of this agreement are pointing to the job losses from plants going to Mexico and from imports coming from Mexico, but I want to stress, those are job losses which have occurred under an existing relationship which is imbalanced.

At the same time, those critics are not acknowledging the significant job gains we have had from exports to Mexico as a result of the liberalization that has occurred there just since 1986. Before 1986, Mexico was a totally closed economy, very, very high protection, State-owned monopolies, very, very little public participation in the economy. President Salinas began to change that and from 1986 to 1991, when we saw some liberalization in Mexico and from 1986 to 1992, we have experienced a dramatic increase in our exports to Mexico. They have risen by about 228 percent since 1986. They have risen from about \$12 billion to over \$40 billion today. Now, that is just with the modest liberalization that we have had through now.

With the significantly increased liberalization under NAFTA, the sweeping away of investment restrictions, the complete elimination of tariff barriers over the life of the agreement, we think that the gains will be even more dramatic than that. But you know, the evidence today, Mr. Chairman, indicates that notwithstanding all the concerns about lower wages, the United States is able to compete on a very, very equal footing with producers in Mexico to the extent that we enjoy almost a \$6 billion trade surplus today. The other thing that I think has to change here is the perception of what is happening in Mexico. The perception is, and I think Congresswoman Kaptur even said it, that they can't afford to and don't buy very much from us.

The fact is that Mexicans per capita buy more from us than Japan and Europe buy from us. There is a dramatically increasing purchasing power in Mexico as the economy improves. There is a growing middle class, and the kind of dynamic changes we are seeing in Mexico's economy are, I think, the kind of changes that have occurred in Asia in places like Korea, Taiwan, and the ASEAN nations, and I think we would be making a grave mistake if we don't recognize that 10 years from now we are going to have a trading partner to our south who will be a significant buyer of United States products with significantly enhanced wealth. They are joining the OECD. I don't think the development in Mexico is going to change. I think they are going to grow and develop whether or not we pass the NAFTA.

The question is going to be, does the United States have a special relationship with Mexico which gives us free access to their mar-

ket, and if we do, I think the United States will be greatly benefited.

Mr. CONYERS. Thank you, Mr. Ambassador. Ms. Hughes, why don't you take a crack at that question. I mean, we are all friends here. The Ambassador cast his response in terms of the critics. The critics are supporters of President Clinton. This isn't some different group of people. You are talking about the President's best friends. What do you say? How do we—well, some of the President's best friends. Just a friend. What do you say, Ms. Hughes? We are sitting around chatting about this informally and you are trying to break down this wall of hostility that is building up among Members that don't understand foreign affairs, diplomatic commerce, and highfalutin trade. Are they just a bunch of slobs that want their people working in the congressional districts they represent? It is not an insignificant matter. You can't tell them that in a decade or so you will be so happy you voted for NAFTA you won't know what to do. They may be out of office by then, but this is—you have got to think long term, but congressmen have to come up every other year.

There is this function here that occurs that we are—our Committee on Government Operations is trying to correct.

Ms. HUGHES. Mr. Chairman, I understand exactly the points that you are making and the important thing about NAFTA is that it is a long-term program. It is a way for the United States to increase its global competitiveness at a time when that is critical to us preparing ourselves for the next century. The people who are afraid of the job losses that they fear will result from NAFTA are not taking that—they are not, obviously, taking the long-term into account because they are worried about their jobs today.

The people who will gain the new jobs that Ambassador Yerxa was talking about, the new jobs that have 12 percent higher wage rates by virtue of being higher tech and jobs that will be—that are already involved in exporting to Mexico, the people that will get those new jobs don't know that they are going to get those new better jobs because they will be created by the NAFTA. So it is very—it is a very hard sell for the employees and the workers in your district to tell them that there are good jobs waiting around the corner as a result of an agreement that hasn't been ratified yet. We understand that, but it—and I think what it calls for is leadership on the part of the President and his administration in making the case that those jobs will occur.

The industry that I am most familiar with, the auto industry, is very confident that the NAFTA will result in a very significant increase in jobs in the United States, beginning in the first year that NAFTA goes into effect, and we think because of the very unequal playing field that we are operating on now, that removing those will result in opportunities to sell United States exports, for example, Thunderbirds and Cougars that are made in very small production runs in Mexico now can be made at existing United States plants with the economies of scale in Ohio or in Michigan and then shipped to Mexico and provided to the Mexican public at much lower prices than currently exist. So the NAFTA will result in a rationalization of the production, certainly in the automobile indus-

try, and in many industries and will result in a net increase in U.S. jobs that will benefit the employees of those industries.

Mr. McCANDLESS. Mr. Chairman, we hear about jobs and we relate that to General Motors, Ford, Detroit Diesel, and all of these. I would like to share with you and the panel this little company called Strata Specialty in Kansas City, MO, the manufacturer of small ambulances and they made their first sale in 1990 to Mexico—1989, I am sorry, with a followup sale in 1990, and it brought the company additional sales to the degree that for the Mexican contracts, 15 people were added to an already small work force, but significant of 45 members, and these stories get lost in the back pages.

And if you are insecure about your job because of mechanization and robotics and the rest of it, and the economy is down, your concern, as the Secretary pointed out, is your job, and these little companies that are adding, and they are all over—there is a desk company in Michigan that has doubled its sales to Mexico in the last couple years, and one wouldn't think that desks would be something that Mexico would want to buy, and so you have got these little success stories all over, but they just don't seem to come to the surface.

Mr. CONYERS. Well, thank you very much, Mr. McCandless.

Now, the problem that complicates this on a personal level, and I think the point has been well made here that we are talking global, is that the family man who works in a plant in the Middle West is concerned every week that he has got to put some food on the table. Maybe that is the part of the disjunction that goes on here. Also consider the African-American worker in this country, already on the bottom of the labor statistics in terms of long-term structural unemployment, last hired, first fired. It is not a syndrome that has completely disappeared from the economic scene. These new jobs coming in will require a higher skill than I suspect many of them possess, so we are talking about different losers and different beneficiaries in the employment market, and I think you would concede that that complicates the problem somewhat.

Mr. YERXA. Yes, I think it does because obviously any time there are changes in national policy, whether it is tax, or regulatory policy, or trade and it changes the status of a particular sector and there are potential employment effects on that sector, even if the overall impact for the economy is positive, we have to recognize the impacts on those that might be at risk, and I didn't want any of my previous comments, Mr. Chairman, to suggest that the President or the administration are not mindful of the short-term concerns of you and other Members with respect to certain sectors which might find increased imports from Mexico. My point was more to the fact that we currently have an open market from Mexico and the adverse effects we are seeing on the United States economy are not likely to change even if NAFTA is not passed.

The impact of passing NAFTA is it gives us access to new markets that we don't currently enjoy, but I think the administration does recognize that there are going to be some sectors, and we can spell those out for the committee, where the International Trade Commission and others would see some increases in imports and some employment effects in the United States. We are going to

have to have adequate programs and policies in place to allow those transitions to occur.

Under the NAFTA, what we have done is provided for the longest possible phaseout in those sectors which are sensitive, 15-year phaseouts of tariffs in the most sensitive products, and for safeguard mechanisms which will ensure that if there is a rapid increase of imports in one of those products, the industry could petition for relief, but I do want to stress that there are, in overall terms, far more potential job gains than job losses and I realize that is a very, very difficult case to make politically. I do have one example of an anecdote a colleague of yours in the Congress told me about.

Mr. CONYERS. I will be happy to hear it.

Mr. YERXA. Well, he went and met with a company. It happened to be an auto parts company. People in the company indicated to him why that company, as well as many others in the auto parts sector were very, very enthusiastic about the NAFTA, because they saw very, very positive potential benefits for exporting auto parts to Mexico, because of the elimination of a lot of the investment and content restrictions down there which now require that the auto parts be built in Mexico for Mexican products. The elimination of these restrictions would allow producers to source from the United States, and the company was really quite ecstatic about the agreement.

But later he met with people on the shop floor in that company and virtually every one of them indicated they were concerned about their job being lost because of NAFTA. And he said, there is a disconnect here between the management of the company and the workers, and I think that is a significant aspect of our problem. I think that can be changed if we have a more clear-headed analysis of exactly what we are getting out of this agreement and where the possible risks are.

I think Ambassador Kantor is very much desirous of engaging in that kind of an analysis.

Mr. CONYERS. Well, I am not sure what your anecdote proves, but let me give you an anecdote back. There is a gentleman in Detroit, to be specific, in the auto industry, UAW to be particular, who happens to be the regional director of region one in the UAW. His name is Bob King. He took a group of union members down to Mexico to this particular area in which commerce has been urged to be set up to, I guess avoid tariff. As a matter of fact, we found the Commerce Department under another administration paying businessmen to find out how they could relocate out of the United States. Mr. King went down there with his little video camera. I haven't seen the film yet, but here is the sum and substance of what he has been saying around the country; that No. 1, the more United States business that goes on in Mexico, the lower the Mexican wage goes down.

He says that if you look at the conditions that working people in Mexico are suffering under, it is unbelievable. I mean, it is nauseous. It is not a good picture. He said environmental controls are literally unknown. Oh, they have a lot of laws on the books; but there are dangerous, unhealthy, destabilizing conditions that we would probably not tolerate in any particular part of the United

States. What was more depressing to him than all of that is that he didn't see how it was going to be changed by increased trade between our countries. So I have this feeling of unease about the immediate effects, and I won't argue the long-term effects around here. Long-term effects are taken with a fair amount of salt. You know, it is always we are going to balance the budget in the fifth year of the agreement. That is when it all comes back. Wait until 2001, you will be surprised at our work kicking in.

So we have got this big problem that the President's best friends need to be sold on this thing, and in a hurry. So in a way, my anecdote complements your anecdote and raises it.

Now, Corrine Brown of Florida has been very patient with me since I have exceeded the informal time limit under which we question, and I probably used up my perks that accrue to the chair even which gives him a few more minutes than everybody else. She has been very patient. Gene Green, he is the new man here on board so he can't complain, but we don't want to get him off on the wrong foot either. Don't want him to get sore at the chairman, so I am going to have to close my comments down and ship you the questions.

Now, here is the Secretary of Commerce, one of my dear friends in public life. We have got to get this thing together real fast. I mean, the time is running out, as my able colleague's question raised right at the outset, and I think we are going to have to—we in the Congress who want to help are going to have to be made privy to a strategy that will get this thing off the road. Right now we have got a few problems that may grow and create some real problems. So I thank you for coming up here.

In a way it may be better that Ms. Hughes and Ambassador Yerxa came instead of Ambassador Kantor and Secretary Brown, because this gives us a chance to have some of these concerns bubble up to the top and you can go back and tell them that, you know, even your first line combat political soldiers, Conyers, is on the shaky list. I mean, when this guy is not on board, that means that there are a lot of other people that are going to be looking and listening as well.

Let me turn now to the gentlelady from Florida, Ms. Brown.

Ms. BROWN. Thank you, Mr. Chairman, and I want to say that when I take this vote, I will not consider friendship. I will consider what is in the best interests of the people of the Third Congressional District of Florida and the country, and so they need to keep that in mind also. Mr. Yerxa, out of 435 congressional districts, my congressional district is ranked 420th in household income. This is due to high unemployment and many people who are employed in low-skilled jobs.

The Congressional Budget Office estimates that 500,000 jobs will be lost and states that, "workers displaced by NAFTA will have a greater than average difficulty finding new jobs to the extent that they are less skilled than the average displaced worker."

It also states, "existing programs will provide a basic safety net but many of the displaced workers would run out of benefits before finding new jobs."

My question to you is twofold. One, what am I supposed to tell the low-skilled workers whose jobs will be shifted to south of the

border? And two, how will the administration fund the unemployment benefits of the workers displaced by NAFTA? Those are my first two questions.

Mr. YERXA. Congresswoman, taking on the second aspect of the question first, there will obviously be very significant concern on the part of you, as well as many other Members of Congress, about exactly what specific programs we are providing or proposing for displaced workers, for worker adjustment, worker retraining, which, of course, goes beyond just the changes that are occurring because of trade. There are changes occurring because of technology, because of the defense conversion, because of other changes in our economy, and Secretary Reich and others are obviously aware of the need to present to you a comprehensive package and one which takes full account of future changes in the work force.

Now, the tougher question obviously is exactly what would happen to lower-skilled, lower-wage workers in your district, and for that, and I am not trying to duck the question, but I would obviously need to look closely at exactly what products, industries, what companies and sectors are there and what potential impact the NAFTA would have on those.

We do find that in many of these industries, the immediate impact of NAFTA will be positive for United States companies, because on day one of the agreement, a number of barriers come down in Mexico. Some of these are in sectors where the barriers in the United States have already come down and where the imports are already on the market. Obviously, I need a little more information, but I would be glad to try to get you some assessment of impact on jobs and companies in your district.

Ms. BROWN. Mr. Yerxa, I represent a district that has an African-American population of greater than 50 percent. Due to a long legacy of discrimination, many of the contractors in my district depend on governmental procurement set-asides. How will the new governmental procurement regulations affect minority contractors on the State and local levels.

Mr. YERXA. No, not at all. Under the NAFTA, we have not touched the Federal minority and small business set-aside program. That is not affected by the NAFTA agreement. It would be maintained intact. And furthermore, State procurement is not covered by the NAFTA agreement at all. There is a provision which says that beginning in 1998 we would seek to negotiate coverage of States and at the same time sub-Federal entities in Mexico and Canada, but only if the State government voluntarily agrees to be covered. So I want to assure you that the existing programs that the committee has established for minority and small business set-asides would remain intact and are not changed by the agreement.

Mr. CONYERS. Well, I want to thank you for your kindness today, Ms. Brown. Normally you are very generous to our witnesses and I am sure they appreciate it as well as the chair. We would like to welcome Gene Green of Houston who we are pleased to have on this committee. He serves with great distinction on Education and Labor as well as Merchant Marine and we are just delighted that he has picked this oversight committee of the Congress to give up some of his time. We would like to recognize you at this point.

Mr. GREEN. Thank you, Mr. Chairman. I appreciate the help of the Chair in providing the temporary assignment to the committee. For the witnesses, I served 20 years in the Texas legislature on the Sunset Commission that did basically what this committee does, and I have some questions relating to the later witness' testimony. You just said, Secretary, that, I am sorry, Ambassador, that the NAFTA agreement had no impact on minority set-asides or provisions to encourage minority participation in the public service contracts?

Mr. YERXA. That is correct.

Mr. GREEN. Is that specifically spelled out in NAFTA?

Mr. YERXA. Yes.

Mr. GREEN. I would just appreciate a copy of that. I think the committee would.

How does it impact the Buy American provisions?

And I know the States—and Congressman Traficant particularly adds to every bill we pass here—but how would NAFTA affect priority for U.S. products, for example?

Mr. YERXA. I can summarize for you, and we can provide you some further detailed information, Congressman; and we will do so.

But the NAFTA agreement does open up Federal level procurement, that is procurement at the national level in Mexico, Canada, and changes some of our existing Buy American restrictions at the Federal level.

We would waive Buy American restrictions for Canada and Mexico in certain agencies and entities above a certain threshold level. Some of that we already did with respect to Canada under the free trade agreement, but this agreement opens it up a little further.

The offset to that, of course, is that we are obtaining access to the procurement markets in Canada and Mexico. For example, the parastatal organizations in Mexico, PEMEX, and the electrical utility would grant access to us.

There are some changes in the Buy American restrictions which we can detail for the committee precisely what the tradeoffs would be.

With respect to those products and sectors which would benefit to supplying to the procurement market of PEMEX, I specified, in my testimony, oil drilling services and equipment, steel products. Because of this, we have received a fairly favorable report from our advisory committees in both the energy and the metals sector of the potential benefits of this procurement deal for their sales to Mexico.

But at the State level, we would not be changing any of our State procurement restrictions, any of the restrictions that State governments have imposed. As I said, there is agreement to seek to negotiate on this in the future; but the agreement that Congress would be implementing would not, in any way, preempt existing State measures.

Mr. GREEN. In later testimony, the chairman of the Cato Institute—and you may want to address it now—NAFTA overrides most Buy American provisions of Federal and State procurement laws, where the exception of contracts with small firms owned by nationals of some countries not in NAFTA, are involved in our national security concern.

Obviously, we are going to get testimony later that may disagree, but I appreciate the copy—

Mr. YERXA. I don't think that is an accurate statement with respect to the States or with respect to Federal procurement. A large category of Federal procurement is obviously in the defense field. That is not affected.

The civilian procurement is affected to a certain extent by changes in the Buy American policy, but complemented by changes in Mexico and Canada's restrictions. So it is a limited opening on the part of all three countries.

There is one point that I would like to make about what we are getting out of this agreement with Mexico, because I think it is very important; Mexico is not a member of the GATT procurement code. So the benefits that Mexico is giving to us under this arrangement, the access to their government corporations like PEMEX, are not benefits they are giving to other countries. They are benefits Mexico is giving exclusively to the United States and Canada under NAFTA. That is a little different than what we do, because we are a signatory of the GATT procurement code; and the benefits we are giving are benefits that we give to the rest of the world.

And I guess my point is that this presents us with a significant opportunity to have an advantage in the procurement markets in Mexico over other suppliers and countries who would not be getting the NAFTA benefits.

Mr. GREEN. Obviously, from my district in Houston, who has a great many oil specialized firms, there is a great deal of support for NAFTA because of that provision.

Also, later on, we will have witnesses—our Canadian witness who is testifying that the United States-Canadian agreement did result from the lowering of standards in Canada based on socioeconomic and environmental standards.

That is the other concern that I guess we would see, the actual lowering of standards across the board. I know that these may be subject to the side agreements that we talked about. You may want to address that also.

Mr. YERXA. My understanding is that there is nothing in our FTA with Canada that required Canada to lower any of their standards. I am not sure which standards you are referring to, if you mean product safety and health, that sort of thing.

Mr. GREEN. Just the general feeling that, you know, the market will seek the lowest prevailing standards.

For example, if the United States had lower standards than Canada for something, then because of the trade agreement with Canada, that we went to the lower level. And, obviously, their testimony will be with the trade agreement with Mexico, we would see the same thing.

Mr. YERXA. We have been very careful to ensure that, under this agreement, we are not lowering any of our product health and safety standards nor are we requiring States which maintain higher than Federal standards to change.

That, of course, in the world of commerce, can have some impacts if producers decide for one reason or another to locate in places with different standards. But as far as the standards for goods and

products are concerned, we are not harmonizing downward our standards to those of Mexico.

And, in fact, in a significant number of areas, I think the impact of the agreement will be that Mexico will have to raise standards in order to compete effectively with our industries.

Mr. GREEN. OK. Thank you.

The other—and you mentioned earlier the affect of NAFTA on State laws and regulations.

Is there a specific provision in the NAFTA that has been negotiated or the supplement that will safeguard those particular State and local regulations from—if they are in conflict with the interests of either Mexico or Canada? Is that specifically spelled out.

Mr. YERXA. You mean with respect—

Mr. GREEN. State procurement provisions.

Another example, I have heard from a great many folks at home, if Texas requires minimum insurance requirements for over-the-road trucking, is that also going to apply to a Canadian trucker or a Republic of Mexico trucker?

Mr. YERXA. Yes. Absolutely. And all applicable regulations and laws would continue to apply to goods, commerce, or services from either Mexico or Canada.

Mr. GREEN. And that is somewhere spelled out? I would appreciate it. And I will get the staff to look at it.

Thank you, Mr. Chairman. I appreciate the courtesy.

Mr. CONYERS. Thank you so much, Mr. Green. We look forward to your membership on the Government Operations Committee.

Mr. Ambassador, Madam Secretary, we thank you very much. Let's keep in touch. We have some other questions that we would like you to address in writing.

And I am very grateful to you for your time this morning.

Mr. YERXA. Thank you, Mr. Chairman.

Ms. HUGHES. Thank you, Mr. Chairman.

Mr. CONYERS. We have asked Dr. Robert Reischauer to spend a little time with us on this subject. His field of Federal budget policy is well known to the Government Operations Committee.

Welcome, Dr. Reischauer, one more time.

[Witness sworn.]

Mr. CONYERS. Thank you, very much. We have your testimony which will be put forward.

Can you help us resolve some of our doubts and fears? Are these demons that can be swept aside by clear, economic analysis?

STATEMENT OF DR. ROBERT D. REISCHAUER, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Dr. REISCHAUER. I think the causes of your concerns are genuine and should be part of the decisionmaking process, as I will describe in my summary remarks today.

I will submit my prepared statement for the record, and then just touch on several of the larger conclusions of CBO's study of NAFTA, which, as you know, doesn't deal directly with the issues that are the topic of this hearing but, in a way, forms a context for consideration of these issues.

I want, first of all, to stress that NAFTA should represent a net gain to the U.S. economy, but that net gain will be very small. It

is going to be small because the Mexican economy is tiny and its ability to either inflict harm or provide substantial benefits is, obviously, limited. The gain will also be small because the United States already has a fairly open economy, so making that economy marginally more open isn't going to involve a sea change either.

The primary impact of this agreement, of course, should be on Mexico, where the economic development that is associated with this agreement is going to open markets and investment opportunities for the United States. Mexican living standards are going to rise more rapidly than would otherwise be the case, and that is going to boost imports from the United States, thereby helping our economy.

Although the benefits of NAFTA will be small, they should be fairly widespread [and at the conclusion of my remarks, I am going to come back and try to answer the question that you asked the Ambassador early on]. We should expect United States consumers to benefit from marginally lower prices, workers overall from a net increase in jobs and income, and investors from new investment opportunities both in Mexico and in the United States.

Over the longer run, the United States is likely to benefit from reduced illegal immigration into this country and also from an improved stability in United States-Mexican relations.

The reallocation of resources that is the necessary source of these benefits would not be massive. Contrary to some fears, NAFTA is not going to cause a wholesale movement of manufacturing plants to Mexico to take advantage either of the lower wages or of the less stringent enforcement of environmental regulations there. The reason we can be fairly sure of this is that labor costs and environmental regulation costs are but two of many, many factors that go into decisions about plant location. We have to remember that the United States will retain the economic advantages, by and large, that it has now. And Mexico, even after some development, and reform of its markets, is still going to have certain disadvantages associated with it as a place to locate.

It is also important to keep in mind that with or without NAFTA, low-skilled American workers are going to continue to face competition from low-wage workers in other countries. Low-wage American workers, if there is no NAFTA, might be granted a small and quite temporary reprieve; but we also have to remember that if NAFTA should fail or the Mexican economic reforms are reversed, this will have an adverse impact on certain sectors of the American economy that now are increasingly oriented toward providing goods and services to Mexico.

The second point I would like to make is that although NAFTA would impose some direct costs on the Federal budget, these costs would be slight both in relation to the total size of our budget and to NAFTA's broader economic effects.

NAFTA could affect the Federal budget in four ways. The first and most obvious is by reducing the revenues that we receive from tariffs. Our estimate is that tariffs on imports from Mexico could fall by somewhere between \$2 billion and \$3 billion over the next 5 years if NAFTA is implemented. The amount is small because, as the Ambassador pointed out, over half of our imports from Mexico come in duty free.

NAFTA could also change outlays for agricultural programs. The cost of the commodity programs might be reduced marginally if United States exports of grains, oilseeds, and related products to Mexico increase, as most economists expect. The cost of our credit guarantee programs, on the other hand, may rise a bit if Mexico chooses to use these programs to finance its additional agricultural imports. It already relies quite heavily on these programs.

A third potential budgetary impact involves expenditures for workers who may lose their jobs because of NAFTA. The administration has already indicated its intention to submit legislation that would address the needs of all displaced workers, regardless of the reason for their displacement. And it has asked the Congress for triple the funding of last year or this year for the major program that retrains workers who are dislocated. So that will be part of the current budget decision process.

NAFTA also could generate increased pressure for spending on infrastructure and environmental cleanup along the border. But it is also important to remember that these problems predate the agreement and will be present even if the agreement collapses.

Let me step back and say, for those who are concerned about the impact of this agreement on the Federal deficit, we have to remember that we are under the strictures of the Budget Enforcement Act. That means that changes in revenues or mandatory programs must be offset under the pay-as-you-go rules, and discretionary spending increases for either dislocated worker assistance or infrastructure-type programs would have to be fit under the limits that we are operating under.

The third point I would like to make is that the increase in foreign investment in Mexico that is expected to be stimulated by NAFTA and by Mexico's liberalized policies with regard to investment should, on balance, be beneficial, not harmful, to the United States.

Mexico's more liberal policies will encourage additional investment in physical resources. A large fraction of Mexico's physical capital imports come from the United States. So as it expands physical investment, one would expect the United States to benefit from that. Even if the added foreign investment is offset by increases in consumer rather than capital imports, the United States would be in a strong position because, as the Ambassador has already pointed out, we are the major source of imported consumer products for the Mexican economy.

Let me conclude by noting that, inevitably, some U.S. workers, firms, and communities will be faced with very painful adjustments. Industries making intensive use of low-wage labor, particularly those that are protected by substantial tariffs, would probably be the most disadvantaged.

Although NAFTA is expected to create, net, 35,000 to 170,000 more jobs than it destroys, the new employment opportunities will not exactly match the training or geographic location of the workers that are displaced. It could take months for displaced workers to find new employment. And some of these displaced workers might face additional costs if they have to go through retraining or relocation.

A key issue is whether the existing programs that we have for these purposes are sufficient and appropriate to handle the needs of these workers. If not, more will need to be done. But it is also important to keep these problems in some perspective. The gross number of jobs that might be lost as a result of NAFTA would be well under a half a million. Our best guess is that the number is probably under 200,000, and these will be spread over at least a decade.

For a large and dynamic labor market, this is not a huge or insurmountable problem. Contrasted with the 1980's, during which some 20 million workers were displaced, the effects of NAFTA are fairly small. But decency and equity require that we try to ameliorate the effects on those who are displaced by the policies that benefit the Nation as a whole.

Now, let me try to answer the question that you posed to the two previous witnesses. If the agreement is so beneficial to the United States, why is there so much hesitancy among the friends and political allies of the administration to endorse this proposal?

I think I would point to four different factors. The first is simply the state of the current economy. The economy is not strong. We have 7 percent unemployment. The growth rate has been less than most people would have desired. That has colored the way we are approaching virtually all problems and makes any change quite unsettling.

Second, it is a fact that some damage or harm will be done by NAFTA. It is very hard for a government or a political system explicitly to take actions that might impose some harm on some group. Most of what the Congress does is to provide benefits, very concentrated and very identifiable benefits, the cost of which are more diffuse and less specific.

This is precisely the reverse situation. It is easy to pinpoint where the harm might be done. The harm has a particular geographic location, as Congresswoman Kaptur pointed out, it might be the glass factory within her particular district.

The benefits, on the other hand, are unspecified, and diffuse: Lower prices, jobs for people who do not necessarily know they are getting those jobs because of the expansion of trade with Mexico, or whatever.

Third, I think a component of the answer to this question is that it is easy to exaggerate the harm that might befall our economy from the NAFTA agreement.

What we tend to do is look at all of the dislocation that is taking place, whether it is because of technological change, jobs moving to Thailand, defense downsizing, or whatever and envision that these, in some way, represent the kind of impact that NAFTA might have.

But as I pointed out, the gross harm done by NAFTA is really minuscule in comparison with the changes that are always going on in this economy. And, on balance, it is a net plus for the economy.

Finally—and I think you pointed this out, Mr. Chairman—the simple fact of the matter is that our system for compensating losers is not particularly good. We have a frayed safety net. We have a system that is, really, quite inadequate compared with those, say

in Europe where unemployment benefits might extend for a good deal longer than they do in the United States.

And that makes the costs that we are asking certain individuals to pay very real and very personal. It is difficult for anyone representing those individuals to sign on to such a possibility.

That concludes what I have to say. I will be glad to answer any other questions that you might have.

[The prepared statement of Dr. Reischauer follows:]

CBO TESTIMONY

Statement of
Robert D. Reischauer
Director
Congressional Budget Office

before the
Subcommittee on Legislation and National Security
Committee on Government Operations
U.S. House of Representatives

July 27, 1993

NOTICE

This statement is not available
for public release until it is
delivered at 10:00 a.m. (EDT),
Tuesday, July 27, 1993.



CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

Mr. Chairman, I appreciate the opportunity to appear before this Subcommittee to discuss the results of the Congressional Budget Office's (CBO's) recent study *A Budgetary and Economic Analysis of the North American Free Trade Agreement*. The study analyzes the major effects of the proposed agreement and its probable impact on the U.S. economy and the federal budget. It is not a cost or revenue estimate of the legislation that the Congress will be asked to vote on to implement the North American Free Trade Agreement (NAFTA), although it provides a basis on which CBO can make those estimates. CBO recognizes that the Administration's negotiations with Canada and Mexico for side agreements that would cover issues of special concern--notably, the environment, labor standards, and import surges--are not yet complete. The outcome of these negotiations, however, should have little impact on the study's findings concerning the principal economic effects of NAFTA.

My statement reviews the following three conclusions of the CBO study:

- o Over time, NAFTA should provide net economic gains for all three countries. In particular, the net effect on the U.S. economy, although very small, would be positive.

- o NAFTA would impose some direct costs on the U.S. budget, but these costs would be insignificant compared with NAFTA's broader economic effects.

- o NAFTA would cause some reallocation of resources within and among the United States, Mexico, and Canada, but should not cause a massive relocation of U.S. manufacturing plants and jobs to Mexico.

AN ECONOMIC OVERVIEW OF NAFTA

The North American Free Trade Agreement provides rules and guidelines for dismantling trade barriers and creating a free-trade area encompassing the United States, Mexico, and Canada. In addition, NAFTA provides for the substantially free flow of capital among the three parties to the agreement, and for some mobility of labor in the form of rules governing the temporary entry of businesspeople. Because the most significant aspect of the agreement is the addition of Mexico to the existing Canadian-U.S. free-trade area, most analyses, including CBO's, focus on interactions between the U.S. and Mexican economies.

Each of the countries participating in NAFTA should realize net economic gains. The agreement would carry Mexico further along in its strategy of promoting economic development by opening markets and encouraging foreign investment. This strategy has already led to a higher rate of economic growth and an improving standard of living. A rising standard of living in Mexico, based on greater economic efficiency and open trade, would also help raise the standard of living in this country as Mexico imports additional agricultural products, manufactured goods, and services from the United States.

On balance, U.S. consumers, workers, and investors would benefit from the provisions of the agreement. U.S. consumers would benefit from lower prices; U.S. workers would benefit from a net increase in jobs and income; and U.S. investors would benefit from new investment opportunities in both Mexico and the United States. The United States would also be helped by changes in Mexico that, over the long run, are likely to reduce illegal immigration and increase the stability of U.S.-Mexican relations. For example, the agreement could eventually relieve the pressure of illegal immigration into the United States by supporting the growth of jobs and income in Mexico.

A thorough review of the myriad changes brought about by NAFTA, and of their interactions, leads to the conclusion that the net effect on the U.S. economy, although very small, would be positive. (The largest changes introduced by NAFTA would be those related to Mexico. Given the small size of the Mexican economy--less than 5 percent of U.S. gross domestic product--one can reasonably conclude that the impact of the agreement on the United States would be slight.) But the view that the net effect on the United States would be positive should not obscure the painful adjustments and losses that some U.S. workers, firms, and communities would undoubtedly experience. Such gains cannot be achieved, however, unless adjustments are made--unless labor and capital resources are shifted from less profitable to more profitable uses.

Contrary to some commonly expressed concerns, the reallocation of resources in this country would not be massive. The United States should not fear that NAFTA would cause a wholesale relocation of its manufacturing plants and jobs to Mexico to take advantage of the lower average wage there. Labor costs are only one of a number of factors that influence where firms locate their plants. The United States will retain the economic advantages it has, and Mexico will still have some drawbacks for firms that produce there. Indeed, some U.S.-owned firms now operating plants in Mexico may relocate to the United States if access to the Mexican market from U.S. production sites improves.

With or without NAFTA, low-skilled workers in the United States will continue to face competition from low-wage workers in other countries. The failure of Mexico to continue with its economic reform strategy, or of the United States to approve NAFTA, would not offer much of a reprieve for these workers, nor would the success of NAFTA greatly affect their fortunes. Without NAFTA, a few of those workers might be granted temporary relief, but technological change and the competitive forces that drive the U.S. economy (as well as larger flows of migrants across the border) would continue to apply pressure. And more important, workers and firms that now depend on trade with Mexico could find themselves in jeopardy if NAFTA were not carried out.

EFFECTS ON THE FEDERAL BUDGET

As the Congress considers legislation to implement NAFTA, one element to be reviewed will be the agreement's impact on the federal budget. Overall, this impact would be slight, not only in absolute terms, but in relation to the total budget. NAFTA could affect the federal budget directly in four ways: by reducing revenues from tariffs, changing outlays for agricultural programs, increasing expenditures for displaced workers, and increasing pressure for spending on infrastructure and environmental cleanup along the U.S.-Mexican border.

Reducing Revenues from Tariffs

Reduced tariffs on imports from Mexico could result in revenue losses on the order of \$2 billion to \$3 billion over five years. In 1991, tariffs on imports from Mexico amounted to nearly \$0.6 billion. About 50 percent of the total value of imports from Mexico was duty free; of those duty-free imports, one-quarter entered the country under the Generalized System of Preferences (GSP) program. The estimated revenue loss from NAFTA depends in part on the status of the GSP program when the Congress votes on the NAFTA legislation. The GSP program expired on July 4, 1993. If it were not renewed prior to the vote on implementing legislation for NAFTA, the higher revenue loss would apply.

Changing Outlays for Agricultural Programs

The agreement would probably have little effect on the cost of U.S. commodity programs and the cost of programs to promote exports of U.S. farm products. If U.S. exports of grains, oilseeds, and related products to Mexico increase, the cost of U.S. programs for those commodities could fall. If Mexico uses credit backed by U.S. programs that provide credit guarantees to finance those exports, the cost of the guarantee programs could rise.

Increasing Expenditures for Displaced Workers

Increased expenditures for workers who may lose their jobs because of NAFTA could result in additional budgetary costs. The Administration has indicated its intention to submit legislation that would address the needs of all displaced workers regardless of the reason for their job loss. Meanwhile, the Administration proposes to triple the funding for the main existing retraining program, from about \$600 million in 1993 to more than \$1.9 billion in 1994. No estimate is available of how much of the increased funding would be attributable to NAFTA. Any legislation to expand aid for displaced workers would be subject to the constraints of the Budget Enforcement Act.

Increasing Pressure for Spending on Infrastructure and Environmental Cleanup

Pressing environmental problems and the lack of adequate infrastructure along the U.S.-Mexican border create another set of potential budgetary expenditures related to NAFTA, although these problems predate the agreement and would continue to create pressure for spending even without it. In 1992, the United States and Mexico issued an integrated plan for the border area (known as the Border Plan) to deal with common problems involving resources and the environment. Federal funding for projects

included in the Border Plan is subject to annual appropriations that are limited by the caps in the Budget Enforcement Act.

GROWTH IN MEXICO AND ITS BENEFIT TO THE U.S. ECONOMY

In the mid-1980s, Mexico embarked on a market-oriented policy agenda that broke with the past by reducing restrictions on trade and foreign investment. In many ways, NAFTA is a logical next step in this development strategy. The key to this approach is for Mexico to attract and productively absorb foreign capital. In addition to making Mexico more attractive for U.S. investors (because of the investment provisions of the agreement), NAFTA reduces doubts that other foreign investors may have about the permanency of Mexico's economic reforms; that is, it helps lock in those reforms and so reduces the risk involved in investment.

The success of NAFTA largely depends on whether Mexico pursues policies that enable it to achieve a sustainable increase in economic growth. NAFTA would support this pursuit, but Mexico must continue on its current path of market liberalization and macroeconomic stability. The effort, however, will cause dislocations and require painful adjustments for a large segment of its population.

Mexico's more liberal investment policies will encourage additional investment in its physical capital, which over time should greatly improve its standard of living. Much of this physical capital will be exported to Mexico from the United States; 90 percent of the \$11 billion in capital goods imported by Mexico in 1991 came from the United States. Illustrative simulations, based on the experiences of other countries that have successfully liberalized their trade, suggest that after 20 years NAFTA could raise real output in Mexico by as much as 6 percent to 12 percent.

To achieve this higher level of output, Mexico must attract foreign financial capital of about \$15 billion a year for 10 years or more. The potential flow of capital from the United States to Mexico will probably not represent a significant net draw on the pool of resources available for investment in the United States. The yearly amounts that might come from the United States are very small in relation to U.S. capital markets, and the United States would also be in a better position to attract capital from the rest of the world. Thus, the extra demand for investment in Mexico would amount to only a small draw on U.S. capital markets. And in time, this investment would generate interest and dividend income for U.S. investors.

On balance, capital flows into Mexico imply more jobs and more income for the United States. The logic of this is compelling. In economic terms, capital flows to Mexico are the financing for Mexico's trade deficit.

When capital moves from the United States into Mexico, both Mexican imports and U.S. exports must rise to balance each country's external accounts. In fact, it is likely that some of the capital entering Mexico would take the form of direct investment by U.S. corporations, and that those corporations would equip plants in Mexico from their normal U.S. suppliers. But even if the links between capital flows and exports were not so direct--if, for example, some of the capital flows to Mexico financed imports of consumer goods--U.S. exporters would still benefit.

This point is crucial. When capital flows to Mexico, it does not cost U.S. jobs; for a considerable period it actually adds to U.S. jobs by increasing U.S. exports. That process has already begun, as a result of Mexico's steps toward liberalizing and stabilizing its economy and in anticipation of NAFTA. U.S. exports of merchandise to Mexico increased from \$13.6 billion in 1985 to \$33.3 billion in 1991. CBO's estimate, using both the experience of other countries and model simulations, is that capital flows are likely to continue for 10 to 15 years, and U.S. exports and jobs will benefit throughout the entire period.

EFFECTS ON INDUSTRIES, AGRICULTURE, AND EMPLOYMENT IN THE UNITED STATES

Estimates of the overall benefits of NAFTA mask its effects on individual industries and commodity groups. In some cases, NAFTA would boost production and employment in the United States because of improvements in efficiency or better access to the Mexican market. In other cases, however, U.S. operations would contract in favor of less costly imports. Although these individual effects would be fairly small when viewed against totals, they could be large to those who gain from the agreement and especially to those who are hurt by it.

It is inevitable that freer trade with Mexico would create winners and losers, largely because the Mexican and U.S. economies have different competitive strengths. But by encouraging each country to produce and trade the types of goods and services that draw on those strengths (for example, a relatively large pool of low-wage labor in Mexico and a relatively large pool of capital and skilled labor in the United States), NAFTA would promote overall gains in both countries. The benefits of lower prices would spread to all consumers; workers and firms in expanding industries would also gain; but there would be costs that would be visibly concentrated on workers and firms displaced by foreign competition and on the communities in which they are located.

CBO's review of a selected group of traded goods indicates that U.S. industries making intensive use of capital and skilled labor--particularly those that now face substantial barriers to trade with Mexico--would benefit from NAFTA. Conversely, U.S. industries making intensive use of low-wage labor--particularly those that are now protected by substantial tariffs or import restrictions--would probably be placed at a disadvantage. In the automobile industry, for example, NAFTA would be more likely to help than to hurt U.S. firms and workers, as a group. In part, that industry would benefit because most of the barriers to be removed by NAFTA are imposed by Mexico against imports of U.S. goods. In the apparel industry, however, NAFTA would introduce additional competitive pressure because the industry employs a relatively large number of low-wage workers.

In agriculture, too, NAFTA would encourage each country to draw on its competitive strengths. For the United States, the overall effect would be modest and positive. For specific groups of commodities, however, the results would vary. U.S. producers of grains, oilseeds, and some animal products would benefit from the agreement, but U.S. producers of some horticultural products would face additional competition.

Differences in market conditions, such as those that affect costs of production, influence decisions about firm and plant location. To the extent that NAFTA allows freer investment in Mexico and enables U.S. investors in

Mexico to benefit from those differences, the agreement may have some effect on the location of manufacturing. Some groups have voiced concern that firms operating in the United States will be at a competitive disadvantage because firms operating in Mexico will face lower costs for controlling pollution. These groups suggest that U.S. firms will move to Mexico as a result. Most analysts, however, conclude that differences in the costs of pollution control should not cause widespread movement of U.S. manufacturing facilities to Mexico, mainly because such costs are a small portion of most firms' total expenses. Moreover, economic growth in Mexico should eventually lead to better enforcement of environmental regulations in that country, thus eliminating the difference in those costs.

Although CBO does not anticipate a large movement of U.S. operations, some U.S. firms that depend on low-wage labor may migrate south of the border to take advantage of Mexico's low-wage labor and liberalized investment climate. Owners of such firms would benefit from NAFTA, but their workers would not. Most workers who lost their jobs as a result of such displacement would try to find other jobs in the United States that are at least as good as the ones they lost. NAFTA would create opportunities for new employment, but the jobs created may not match the training or geographic location of the displaced workers. Although recent studies indicate that job gains could ultimately exceed job losses by 35,000 to 170,000, no provision in NAFTA can possibly guarantee that the workers who are displaced will be the

ones who find the new jobs. Moreover, even those people who do find new employment could take several months to do so, resulting in substantial transition costs for them. If retraining or relocating is necessary, those costs would be even higher. A key issue is whether existing programs--unemployment insurance, Economic Dislocation and Worker Adjustment Assistance, and Trade Adjustment Assistance--are sufficient and appropriate to handle the needs of workers displaced by NAFTA.

A review of available information about the potential effects of NAFTA on workers in the United States indicates that even though the agreement should increase total employment in this country, some U.S. workers would lose their jobs. The gross number of jobs that could be lost would probably be well under half a million, spread over at least a decade. Viewed as part of a larger, dynamic labor market in which nearly 20 million workers were displaced during the 1980s, the effects of NAFTA appear relatively small.

Judging by the experience of workers who lost their jobs over the past decade, the consequences for some of those who are displaced could be serious. (Half of the workers who lost their jobs in the 1980s were either not working or were making less than 80 percent of their previous earnings one to three years later.) Although existing programs--particularly unemployment

insurance--would provide a basic safety net, many of the displaced workers would run out of benefits before they found new jobs.

CONCLUSIONS

If the North American Free Trade Agreement is implemented, the economic gains for the United States from the agreement, although fairly small, should clearly be large enough to outweigh the expected budgetary and private-sector costs that would follow in its path. Contrary to some commonly expressed concerns, NAFTA should have relatively little impact on U.S. jobs and the location of manufacturing. Economic analysis cannot answer the question of how the losses that may be felt by some people should be weighed against the gains experienced by most. Temporary income support and help in finding new employment are measures that can help to compensate the losers, if they can be identified.

Mr. CONYERS. Thank you, Dr. Reischauer. I appreciate your candidness and your thoroughness.

So if I told some of my nervous colleagues to take two aspirins and get a good night's rest and then start looking at NAFTA again, like, relax, guys, it is not that bad because the effect of trading with Mexico is small.

We have an economy with a factor of 25 to 1; we have—we have a trade relationship that is very favorable, maybe as high as even 3 to 1 or something. So relax, guys. It is not a pretty picture, but neither is it as bad as you think it is.

I mean, if you are doing worse scenarios, you can come up with anything. You will be unable to sleep in your bed at night. But if you take it easy and look at the long-range, it is not going to be so bad.

Dr. REISCHAUER. I don't even think you have to look at the long range. What you have to point out is that our trade situation with Mexico has gone from a substantial deficit to a surplus over the course of the last 5 years.

We are benefiting from what has gone on already in Mexico and what we want to preserve. That has created jobs in the United States. It is very difficult to identify those jobs in the same manner as it is to identify the people affected by the closing of a glass factory in Toledo, OH. It is a person here, a person there, a few added to this company and that company, and they are spread out throughout the United States.

Mr. CONYERS. So it is getting better, and this will help it even get better than it would have been otherwise?

Dr. REISCHAUER. But the general benefit that is provided by freer trade and a more open economy, a more efficient relationship between the United States and Mexico, is not an excuse for not recognizing the fact that certain people will be adversely affected, as they are through all sorts of economic change.

And those adverse impacts are, in a sense, brought about by explicit government policy. The government might be regarded as having some responsibility for helping those individuals.

Mr. CONYERS. Doctor, is it overly sensitive to observe that African-American and Hispanic American workers are going to be more adversely affected than the general work force in the United States?

Dr. REISCHAUER. No. I think that is certainly something that should be brought into the calculus here. But what we are really talking about is the fact that our education system has ill served a large segment of the American population, and our training systems are often inadequate to make up for the lack of human capital investment during the elementary and secondary school years.

And this, I think, is an issue that spreads well beyond the Hispanic and African American populations. It is more general.

Mr. CONYERS. Thank you. Regions that may be more adversely affected—Midwest, industrial—former industrial center of the United States. Will they—will we be hit harder?

Dr. REISCHAUER. We haven't done any separate analysis of that kind. But to the extent that one would expect a vibrant, expanding Mexican economy to import capital goods, one has to remember

that such goods are largely produced in the Midwestern part of the country.

Also, we expect feed grain and oilseed markets to strengthen because of larger imports from Mexico. And those crops are produced in the Midwest as well. So, I think it is not a simple question to answer.

Also, the automobile industry, as the Ambassador mentioned before, is thought to be a net beneficiary from NAFTA. And it is located in that region of the country.

Mr. CONYERS. Well, the auto owners think it is a net benefit. The auto workers' representatives think it is a net loss.

Dr. REISCHAUER. I think most economists believe that production of cars and automobile parts, and thereby employment of auto workers will be helped by this pact, simply because all the protections that Mexico now has cause it to produce very inefficient runs of various products.

Production of certain smaller, fuel efficient cars might move toward Mexico; but, on balance, I think our trade situation with respect to automobiles and parts should strengthen.

Mr. CONYERS. Well, how come Owen Bieber doesn't get it? I mean, he has economists working for him. Presumably they are as legitimate and from as reputable schools as even yourself.

Dr. REISCHAUER. I don't know. I have not seen his analysis. We have summarized the impacts that we think this pact will have on the automobile industry in our report. And we would be glad to compare their analysis with our analysis, if that would be helpful to the committee.

Mr. CONYERS. That is what we are here for.

Doctor, this is Owen Bieber's group summary. The big three domestic auto manufacturers would be allowed to treat Mexican content as United States content for purposes of CAFE standards, which would encourage the United States automobile companies to shift production of small fuel-efficient cars to Mexico without violating fuel economy standards.

Now, economists, as scrupulously as they are, don't come out and say that means that you are going to lose a lot of car production in the United States, Owen. But I will say it—

Dr. REISCHAUER. But this pact has much more in it than the changes in the way CAFE standards are calculated. One has to look at all of the various elements together to figure out what the net impact is going to be on the industry as a whole.

What we have is the United States lowering a set of restrictions that are rather minimal and Mexico lowering a set of trade restrictions that are very substantial and very high. This will take place over a long period of time, admittedly. But I believe that the net beneficiary of this part of the pact should be the United States.

Mr. CONYERS. Well, that is a very appropriate response. My last stab at this area—and my last question—this is labor, there are auto people who build the cars, not manufacturers who own the companies that hire the people that build the cars—Japanese auto companies would be allowed to use Mexico and Canada as platforms to achieve further penetration of the United States market.

Cars assembled in Mexico and Canada by Japanese and other auto manufacturers would be allowed to enter the United States

duty free, even if a substantial portion of the parts in those vehicles are imported from outside of North America. This is because of the so-called "rule of origin" in the proposed agreement which establishes the level of North American content which motor vehicles must have to enter duty free would start at 50 percent and would be gradually phased up to 62.5 percent.

Dr. REISCHAUER. I believe they are 50 percent now with Canada. So, in effect, the level that we are going to apply is actually being raised by this agreement.

Mr. CONYERS. Well, some people want to raise it higher than is permitted under the rule of origin.

Dr. REISCHAUER. That might be true, but the question is, how is this pact going to change the current situation? The answer is that the rule of origin constraints are being tightened.

Mr. CONYERS. OK. Look, my people will be happy to find these things exist. They are much more consoling than they originally anticipated. I mean they are walking around in the plants saying this thing is going to cost us our job. Not so, workers. Relax. You don't understand the North American Free Trade Agreement and the fine print, which there are a number of pages; and we don't expect you to. But we wouldn't kid you guys. I mean, after all, we are trying to build up the American economy.

Is that what the new administration is about? I mean, they are not here representing the interests of big business or some other group?

Now, as good as my staff is, I don't have yet a list of the companies that have relocated outside of the United States. How might they most quickly go about getting such a list?

Dr. REISCHAUER. I would think the Commerce Department might have information of that sort.

Mr. CONYERS. I would, too. OK. How about—how would we get some handle on the jobs created by the North American Free Trade Agreement or that potentially will be created?

Dr. REISCHAUER. Well, the report that we have done summarizes the evidence that is available from other studies. We have actually done several reports on this topic. I think when you get down to levels below the national level and you have people offering to tell you how many jobs will be gained in this region or that region, let alone this State or that State or this congressional district or that congressional district, you should take those estimates with more than one grain of salt.

Mr. CONYERS. OK.

Dr. REISCHAUER. I mean, the methodology, the data, the theory that economists have to do that sort of estimate with just aren't adequate.

Mr. CONYERS. Well, thanks so much. We appreciate your appearance here today. You are always helpful to us. And we will continue to work in this manner to make it as understandable as possible to as many Members of Congress as possible.

Dr. REISCHAUER. Thank you. We will be happy to provide the committee with any information that it might need in its deliberations.

Mr. CONYERS. We are now pleased to invite up, after we have disposed of this vote, but they can set up the table, Ms. Linda Cha-

vez-Thompson and the treasurer of the National Union of Public and General Employees, Mr. Larry Brown.

We are delighted to have you all here. We have a recorded vote taking place on the floor. As soon as that is disposed of, we will be right back.

[Recess taken.]

Mr. CONYERS. Ms. Chavez-Thompson, you have come from the San Antonio area. And we are delighted to welcome you in terms of your representation of the American Federation of State, County, and Municipal Employees. And because of your experience and background, your participation in this hearing is made more important because you have heard a number of the witnesses. And I would like you to feel free to make any summary of your prepared statement but, also, any additional comments about any discussion that has gone on at this hearing that you would like to input on.

So with that, we are very delighted to have you join us here this afternoon.

Ms. CHAVEZ-THOMPSON. Thank you, Mr. Chairman. I am an international vice president—

Mr. CONYERS. I am sorry. Could you stand and raise your right hand, as we have asked all witnesses to take the oath. We will do this together.

[Witnesses sworn.]

Mr. CONYERS. Thank you, so much, both of you.

And you may begin, knowing that your prepared statements will be incorporated into the record in their entirety.

STATEMENT OF LINDA CHAVEZ-THOMPSON, INTERNATIONAL VICE PRESIDENT, AMERICAN FEDERATION OF STATE, COUNTY, AND MUNICIPAL EMPLOYEES, ACCOMPANIED BY MARJORIE ALLEN, LEGISLATIVE AFFAIRS SPECIALIST

Ms. CHAVEZ-THOMPSON. Thank you, Mr. Chairman.

I am an international vice president at AFSCME, as you have said, the American Federation of State, County, and Municipal Employees. I represent seven States in my district of Texas, Oklahoma, New Mexico, Arizona, Colorado, Utah, and Nevada. As you can tell, some of these States border with Mexico.

I am here today on behalf of AFSCME's 1.3 million members across the country. Marjorie Allen, who is AFSCME's legislative affairs specialist for NAFTA, is with me.

I appreciate the opportunity to participate in this hearing on the impact of the proposed NAFTA on the public sector.

Let me begin by stating categorically that NAFTA poses as great a threat to the public sector of the economy as it does to the private sector. We heard a lot about the effects that it will have—that NAFTA will have to private sector jobs and regarding manufacturing jobs and wages.

The debate has ignored the linkage between the Nation's public and private economies. The economic well being of communities and people depends on good jobs in both the private and public sectors. When NAFTA delivers its deadly one-two punch to the private sector economy, you can be sure that the public sector will suffer the same consequences.

While it might initially appear that public sector employees are somewhat insulated from the dislocations caused by freer trade and investment flows, that is not the case. Just as businesses depend on income from sales in order to pay wages and purchase plants, equipment, and supplies, governments depend on income from taxes to pay the wages of the public employees who teach our children, work in our hospitals, police our streets, fight our fires, pick up our trash, repair our roads and bridges; in short, the people that I represent and who deliver the services and provide for the needs of our citizens and our communities.

To the extent that NAFTA affects employment and wages in the three North American countries, it will directly affect government revenues. First, State and local governments will lose tax revenues from businesses that relocate and individuals who become jobless. In those regions that suffer the most severe loss of jobs, corresponding loss of revenues from corporate, personal, sales, and property taxes will be substantial.

Second, NAFTA will exacerbate wage competition between United States and Mexican workers. Fear of job flight to Mexico will depress wages across the board in manufacturing and will undercut wages in other sectors of the economy. Professor Ed Leamer of the University of California, a well-known advocate of free trade, concludes from his research that one effect of NAFTA will be an average wage loss of \$1,000 per worker for the lower 70 percent of the U.S. labor force. Wage losses of this magnitude translate into lower personal income and sales tax receipts.

Third, in seeking to retain jobs, communities are often compelled to compete with each other in offering tax abatements and exemptions in an effort to keep businesses from relocating and to attract companies.

In addition to tax breaks, communities sometimes provide other sweeteners such as constructing new roads and sewers for a single corporate user. While such incentives may retain jobs—although it is often only a temporary stay—they place an additional drain on the tax coffers.

State and local courts are also being asked to rule on whether companies who have received tax abatements can be required to remain open and operational. In a recent decision, a Michigan judge blocked the General Motors Corp. from closing an assembly plant in Ypsilanti.

The judge, ruling in the lawsuit filed by Ypsilanti government officials, said that GM must keep its promise to keep the plant open through the late 1990's in return for \$250 million worth of tax abatements granted by the township in 1984 and 1988.

NAFTA will reduce the revenues of governments precisely at a time when the demand for entitlement benefits and services will increase. As a result of NAFTA, claims for unemployment will rise and additional demands for job retraining, health, and social services—and in some instances food stamps and welfare—will be placed on a public sector with sharply depleted resources.

In some areas of the country, most especially along the United States-Mexico border, there will also be huge additional costs for environmental pollution cleanup, housing, and infrastructure development.

The predictions made for job growth by NAFTA proponents are based on misunderstood, fuzzy, and unrealistic assumptions. Furthermore, all job loss estimates have focused on private sector job loss with no regard for the inevitable loss for public sector jobs as a result of declining tax revenues.

Mr. Chairman, I am going to vary a little bit from my statement and talk about how a lot of times people have not paid attention to the public sector loss here. I am going to tell you, as an international vice president of AFSCME, I have perhaps been more cognizant than others within my own international union as to what the effects are going to be for public employment.

I am greatly concerned because we are already, as public employees, struggling with the issues of privatization, struggling with the issues of job loss for our brothers and sisters in other unions. And, oftentimes, it is easier to say, well, that does not concern us; that is not a direct hit on public employees; and that is the furthest thing from the truth.

We, as an international union, are becoming more and more cognizant that any time we begin to lose our industrial base, any time that we begin to lose manufacturing jobs, any time that people lose jobs and lose homes and buy less, we are going to take the hit because public employees will not have jobs because the public employer has to stretch the dollar further; and that means buying cheaper, and that means job loss for public employees.

Economists who have taken the inevitable investment shifts into account, estimate that at least a half a million private sector jobs will be lost because of NAFTA. Using this more realist estimate, a loss of 500,000 private sector jobs would produce revenue losses to Federal, State, and local governments of at least \$98 billion. The Federal Government would lose 59 percent of the total, or \$57.8 billion; and the States and local governments would sustain a loss of \$40.2 billion.

However, even estimated losses of this magnitude are low. The \$98 billion estimate is calculated solely on the basis of lower personal income tax revenues as a result of job loss and wage depression and higher unemployment costs.

It does not include revenue loss from other sources including tariffs, corporate, business, and property sales taxes. Also, it doesn't include the considerable cost associated with increased use of government programs other than unemployment insurance.

A recent report indicated that potential loss of NAFTA to the Federal budget from lost tariff revenue, retraining benefits for American workers unemployed as a result of new competition from Mexican factories, and improved infrastructure could add up to another \$40 billion.

Congressional pay-as-you-go budget rules require that such revenue losses be made up. The New York Times reported that a desperate search was on in Washington for ways other than Federal taxes to raise these needed funds, including asking State and local governments to pay for as much as possible. That, Mr. Chairman, would seem like a cruel joke to those of us at the local and State level.

Since fiscal year 1991, State and local governments have faced combined budget deficits of \$130 billion with the end for many not yet in sight.

And, because most of these governments are required to have balanced operating budgets, they have been forced to eliminate or reduce services, freeze payrolls, lay off workers, and increase taxes and fees at public educational institutions.

I know from experience, because this has happened to us in San Antonio, TX, in the last 3 or 4 years. We have seen over 1,000 jobs eliminated within the city of San Antonio, all because the revenues have not been there.

And I have had to represent those workers when they have either a freeze on salaries, loss of jobs, or when they have taken on half of the responsibility from a worker who was eliminated.

So I know from firsthand experience what this can do to a city's economy.

Furthermore, a loss of billions of dollars which would otherwise be expected to flow into the Federal Treasury would, in addition to swelling the Federal deficit, make it much more difficult for the Federal Government to increase investments in education, job training, civilian research, and development and infrastructure. Such investments are vital if the United States is to successfully compete against Japan and western European countries.

Completely ignored in any estimate of revenue losses resulting from higher unemployment and lower wages is a discussion of the social cost of joblessness, particularly increases in illness and crime.

A recent report disclosed that a 1 percentage point rise in the unemployment rate resulted in a 5.6 percent increase in deaths due to heart attacks, 3.1 percent increase in deaths due to stroke, 6.7 percent increase in homicides, 3.4 percent increase in violent crimes, and 2.4 percent increase in property crimes.

I believe that minority workers, as you mentioned earlier, Mr. Chairman, will be the most adversely affected by this NAFTA agreement. We are not talking about just minority businesses and whether the side agreements would, in fact, address the issue of protecting those minority businesses in the work that they perform and in the jobs that they are able to generate in the local economy, but I think the minority worker would be even more hard hit—it would be harder for him to get a job or her to get a job by virtue of the fact that just happens to be the economic times of today.

Oftentimes, many of our friends who vote for labor issues and have 100 percent, 80 percent, or 90 percent labor voting records are perhaps not taking the correct position because there has been a lot of confusion that if you are against NAFTA, you are against the Mexican Government or the Mexicans in this case.

I am of Mexican decent. I am a second generation American. My father was first born. My grandfather was from Mexico. I have a cultural and heritage bind with my brothers and sisters in Mexico, but I also have seen the effects of the maquiladoras and how they operate and the abuse of the Mexican workers.

There has to be protection and there has to be a level playing field that we start from, that we are not at a disadvantage. And, I think that is where we are now. When we lose jobs here in the

United States at \$8 an hour, those jobs are not paid at \$8 an hour in Mexico, and the working conditions are not as good.

So some people who may be in favor of the NAFTA agreement think that they need to vote that way simply because to do otherwise would be anti-Mexican, and that should not be the case. The case here is what are we going to lose, not just in private sector, but public sector jobs.

NAFTA requires the Federal Government to ensure that all necessary measures are taken to enforce the rules of the agreement on State and local governments. Furthermore, because NAFTA sets out a process to permanently expand its coverage, a process which will take place without public review, additional areas of State and local responsibility will be continually at risk of preemption.

While acknowledging that others may have differing interpretation, let me alert this committee to a few of the dangers that lie ahead for the public sector.

In the chapter on national treatment, in procurement, the U.S. Government must give goods and service firms in all three countries the same rights and privileges. Furthermore, there is no requirement that the service deliverer establish a local presence. A service provider can remain outside the country using labor also from outside the country.

For example, a governmental entity in the United States could decide to contract for data processing services with a company in any one of the three countries. As a result, work that an AFSCME member might have been doing for years could, under NAFTA, be contracted out and transmitted electronically to a private sector worker in Mexico who is paid one-tenth of the wages of the former United States worker.

NAFTA will make it difficult for the public sector to institute new public programs or institutions by first requiring it to consult with its trading partners. Then if the new program infringes on an existing private entity performing the same function, the public entity would have to compensate the private one for any losses it might suffer.

For example, if the Federal Government decided to institute a national child care program, it would have to consult with its trading partners and then compensate existing private daycare providers who would lose money as a result. NAFTA encourages public entities to contract out or privatize services but makes it very difficult to move that service back, even if the government entity decides it was better or more economically performed by public employees.

Once a service has been opened up to tendering, it could not be brought back in-house without compensating the private entity for losses. Failing to do so would provide a challenge as an unfair trade practice.

This is a glaring example of NAFTA's bias against the public sector. Having public employees perform public work could be cited as an unfair trade practice, while employing 12-year-old girls to work in a maquiladora in violation of each Nation's child labor laws would not be subject to a trade sanction.

NAFTA would permit governments to move in only one direction and that direction is to go private. Government procurement laws

would also be affected by NAFTA. With a few exceptions, all Federal Government purchases for goods and services above \$50,000 will be open to bids from any North American company, and while the government procurement chapter applies only to the Federal Government at the present time, it commits the parties to further negotiations toward the substantial liberalization of the respective procurement markets.

NAFTA states that these negotiations must commence no later than December 31, 1998, following consultations with State governments. Clearly, the intent is to bring State and local governments into conformity. Governments across the country are major consumers of goods and services produced in their communities or States. With that inability, local economies will suffer.

Although American legislators have successfully raised the issue of having NAFTA protect minority set-aside programs from the prohibition of Buy American laws, this may be a hollow victory. When the Federal set-aside laws have been challenged, it has been within the context of Buy American laws that place minority and white-owned businesses within the same arena. But with the NAFTA, minority firms are protected from international competition from bids while white firms are not.

This discrepancy is of a different nature and may allow some white firms to successfully overturn minority set-asides. A careful reading of the Supreme Court ruling in the *City of Richmond v. Croson Co.* suggests that proven discrimination in this new context will be difficult.

Finally, NAFTA is likely to put more crack cocaine on the streets of our inner cities. NAFTA proponent Gary Hufbauer described the likely expansion of the drug trade as being in the "too hot to handle" category and therefore not addressed by the NAFTA negotiators.

But on May 24, the New York Times broke a story. The headline read, "Free Trade Treaty May Widen Traffic In Drugs, U.S. Says." A U.S. intelligence report warned that drug traffickers have started buying manufacturing, trucking, and warehouse businesses as fronts for drug shipments. The report went on to warn that border controls are likely to get looser with the increased trade flow.

This would permit more drugs to come into the United States from Mexico than come across at the present time. Sadly, we know that most of these drug shipments are headed for our inner cities where unemployment is high and opportunities for a better life are few.

Needless to say, that local and State governments, already lacking adequate resources for drug treatment programs and effective law enforcement, would be placed under tremendous additional strains. Any increase in the drug trade will only add to the already enormous human, social, and economic suffering of individuals and communities.

And, a NAFTA defeat will not mean the defeat of efforts to build closer economic ties with Mexico. It will, however, give us the opportunity to develop a trade agreement which ensures that the benefits from increased trade will also flow to the workers in all three countries.

For the public sector, restrictions on government's regulatory powers could be renegotiated to allow governments to act in the best interest of their country, even if that meant limiting the mobility of corporations. The goal of a continental economic development policy must be to raise the standard of living for the majority of people in the United States, Canada, and Mexico, not lower them.

NAFTA is a massive gamble with America's economic future. If we are going to take that gamble, the odds should be stacked in favor of, not against, the majority of the people who live and work in the North American continent.

This NAFTA, even with side agreements, will not meet that test. It will further entrench the polarization in wages and living standards while eroding the already shrinking role of government.

I will be happy to answer any questions which you may have.

[The prepared statement of Ms. Chavez-Thompson follows:]



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TESTIMONY OF

**LINDA CHAVEZ-THOMPSON
INTERNATIONAL VICE-PRESIDENT**

AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES

BEFORE THE

**COMMITTEE ON GOVERNMENT OPERATIONS
LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE**

ON

NORTH AMERICAN FREE TRADE AGREEMENT

JULY 27, 1993

in the public service

Good morning Mr. Chairman and distinguished members of the Committee. My name is Linda Chavez-Thompson. I am an International Vice-President of the American Federation of State, County and Municipal Employees (AFSCME). I am also the Executive Director of AFSCME Local 2399 representing public employees in San Antonio, Texas.

I am here today on behalf of AFSCME which represents 1.3 million members across the country. I am accompanied by Marjorie Allen, AFSCME's Legislative Affairs Specialist for NAFTA. I appreciate the opportunity to participate in this hearing on the impact of the proposed North American Free Trade Agreement (NAFTA) on the public sector.

Let me begin by stating categorically that NAFTA poses as great a threat to the public sector of the economy as it does to the private sector. While we have heard a great deal about the damaging effects of NAFTA on private sector manufacturing jobs and wages, the debate has ignored the inexorable linkage between the nation's public and private economies. The economic well-being of communities and people depends on good jobs in both the private and public sectors. When NAFTA delivers its deadly one-two punch to the private sector economy, you can be sure that the public sector will take the blow as well.

While it might initially appear that public sector employees are somewhat insulated from the dislocations caused by freer trade and investment flows, that is certainly not the case. Just as businesses depend on income from sales in order to pay wages and purchase plants, equipment and supplies, governments depend on income from taxes to pay the wages of the public employees who teach our children, work in our hospitals, police our streets, fight our fires, pick up our trash, repair our roads and bridges – in short who deliver the services and provide for the infrastructure needs of our people and our communities.

To the extent that NAFTA affects employment and wages in the three North American countries, it will directly affect government revenues. First, state and local governments will lose tax revenues from businesses which relocate and individuals who become jobless. In those regions that suffer the most severe loss of jobs, the corresponding loss of revenues from corporate, personal, sales and property taxes will be substantial.

Second, NAFTA will exacerbate wage competition between U.S. and Mexican workers. Fear of job flight to Mexico will depress wages across-the-board in manufacturing and will undercut wages in other sectors of the economy. Professor Ed Leamer of the University of California, a well-known advocate of free trade, concludes from his research that one effect of NAFTA will be an average wage loss of \$1,000 per worker for the lower 70 percent of the U.S. labor force. Wage losses of this magnitude translate into lower personal income and sales tax receipts.

Third, in seeking to retain jobs, communities are often compelled to compete with each other in offering tax abatements and exemptions in an effort to keep businesses from relocating and to attract new companies. In addition to tax breaks, communities sometimes provide other sweeteners such as constructing new roads and sewers for a single corporate user. While such incentives may retain jobs – although it is often only a temporary stay – they place an additional drain on the tax coffers.

The issue of reparations or whether firms moving production could be required to pay a portion of the transition costs now borne by the individual worker and the general public through unemployment, public assistance, job training and other government programs is gaining attention.

State and local courts are also being asked to rule on whether companies who have received tax abatements can be required to remain open and operational. In a recent decision, a Michigan judge blocked the General Motors (G.M.) Corporation from closing an assembly plant in Ypsilanti. The judge, ruling in a lawsuit filed by Ypsilanti government officials, said that G.M. must keep its promise to keep the plant open through the late 1990's in return for \$250 million worth of tax abatements granted by the township in 1984 and 1988.

NAFTA will reduce the revenues of governments precisely at a time when the demand for entitlement benefits and services will increase. As a result of NAFTA, claims for unemployment will rise and additional demands for job retraining, health and social services, and in some instances food stamps and welfare, will be placed on a public sector with sharply depleted resources. In some areas of the country, most especially along the U.S. - Mexico border, there will also be huge additional costs for environmental pollution cleanup, housing and infrastructure development.

While no one can predict with absolute certainty how many jobs will be lost in the United States if NAFTA is ratified, estimates range from 5,400 to one million. The most widely circulated pro-NAFTA study by economists Gary Hufbauer and Jeffrey Schott actually concludes that after an interim job gain, there will be a net loss of 5,400 jobs. Estimates of job loss by economists who are not NAFTA supporters have gone as high as one million.

The predictions made for job growth by NAFTA proponents are based on misunderstood, fuzzy and unrealistic assumptions. In order to reach that conclusion, they have to assume that Mexico will enjoy massive increases in foreign investment, but that the investment diverted from the U.S. (which supplies the bulk of foreign investment in Mexico) would not be diverted from planned investments in the U.S. and therefore would not cost any U.S. jobs. When held to scrutiny, that assumption is simply not credible. Furthermore, all job loss estimates have focused solely on private sector job loss with no regard for the inevitable loss of public sector jobs as a result of declining tax revenues.

Economists who have taken the effect of investment shifts into account, estimate that at least a half million private sector jobs will be lost because of NAFTA. Using this more realistic estimate, a loss of 500,000 private sector jobs would produce revenue losses to federal, state and local governments of at least \$98 billion. The federal government would lose 59 percent of the total or \$57.8, billion and the states and local governments would sustain a loss of \$40.2 billion.

However, even estimated losses of this magnitude are low. The \$98 billion estimate is calculated solely on the basis of lower personal income tax revenues as a result of job loss and wage depression and higher unemployment costs. It does not include revenue lost from other sources including tariffs, corporate, business,

property and sales taxes. Also, it does not include the considerable costs associated with increased use of government programs other than unemployment insurance.

A recent report indicated that the potential cost of NAFTA to the federal budget from lost tariff revenue, retraining benefits for American workers unemployed as result of new competition from Mexican factories, and improved infrastructure could add up to another \$40 billion. Congressional pay-as-you-go budget rules require that such revenue losses be made up. The New York Times reported that a desperate search was on in Washington for ways other than federal taxes to raise these needed funds including asking state and local governments to pay for as much as possible. That, Mr. Chairman, would seem like a cruel joke to those of us at the local and state level.

Since Fiscal Year (FY) 1991, state and local governments have faced combined budget deficits of over \$130 billion, with the end for many not yet in sight. And, because most of these governments are required to have balanced operating budgets, they have been forced to eliminate or reduce services, freeze payrolls, lay off workers, and raise taxes, fees and tuition at public educational institutions. Lost revenue from NAFTA would set off another round of tax increases and spending cuts in the states and localities.

Furthermore, a loss of billions of dollars which would otherwise be expected to flow into the federal treasury would, in addition to swelling the federal deficit, make it much more difficult for the federal government to increase investments in education, job training, civilian research and development and infrastructure. Such investments are vital if the United States is to successfully compete against Japan and West European countries.

Completely ignored in any estimate of revenue losses resulting from higher unemployment and lower wages is a discussion of the social costs of joblessness particularly increases in illnesses and crime. In a recent study, "The Effects of Diminished Economic Opportunities on Social Stress," economists Mary Merva and Richard Fowles analyzed data from 1976 to 1990 for 30 major metropolitan areas with a combined population in 1990 of nearly 80 million people. The report disclosed a striking statistical relationship between deteriorating economic opportunity as measured by higher unemployment rates and the incidence of heart attacks, strokes and crimes against persons and property.

- A one percentage point rise in the unemployment rate resulted in a:
- o 5.6 percent increase in deaths due to heart attacks;
 - o 3.1 percent increase in deaths due to stroke;
 - o 6.7 percent increase in homicides;
 - o 3.4 percent increase in violent crimes; and
 - o 2.4 percent increase in property crimes.

The direct cost to the American public to send three percent of those arrested for violent crimes and property crimes to prison for one year is approximately \$45 million. The additional heart attacks and strokes add significant costs to the nation's soaring health care bill.

The damaging impact of NAFTA will not affect all populations within the U.S. workforce equally. From existing labor force data, it is reasonable to predict that minority workers would disproportionately bear the negative costs in at least two ways. First, minority workers are more likely than their white counterparts to be employed in nonmanagerial positions in public employment and in those industries which are most likely to shift production to Mexico. Second, once jobless, unemployed minority workers are more likely to experience longer periods of unemployment. And finally, when a minority worker does find a new job, it is more likely to pay less and provide fewer benefits than the previous job did.

Deciphering how the states will be affected by NAFTA is like reading Egyptian hieroglyphics before the Rosetta Stone was discovered. It is impossible to explicitly describe the relation of state law to NAFTA because the NAFTA clauses that speak to the role of the state were so cautiously – or ambiguously – drafted. While they push strongly in the direction of preemption, they don't slam the door completely on the state.

Nevertheless, it is clear that important areas within state jurisdiction are fundamentally affected by NAFTA. NAFTA requires the federal government to "ensure that all necessary measures" are taken to enforce the rules of the agreement on state and local governments. Although there appear to be some exemptions, state measures are subject to the most significant rules regarding investment, trade in services, energy, natural resources, procurement policies, and financial services. Furthermore, because NAFTA sets out a process to permanently expand its coverage – a process which will take place without public review – additional areas of state and local responsibility will be continually at risk of preemption.

A Yale Law School professor recently wrote that "it is certain that if NAFTA takes effect, years of disputes in both policy and litigation arenas will ensue over the meaning and effect of clauses such as "appropriate levels of protection," "unnecessary obstacles," "disguised restrictions on trade," "scientific bases," "legitimate objectives," "compatibility of standards," and other key operative terms of NAFTA's standard setting provisions." If there is one thing which we can say with certainty about NAFTA, it is that NAFTA will be a jobs program for lawyers.

While acknowledging that others may have different interpretations, let me alert the Committee to a few of the dangers that lie ahead for the public sector. First, it is likely that NAFTA will limit the ability of the public sector to deliver many traditional services. Many public services under NAFTA are treated as commodities subject to marketplace competition. For the first time in a trading agreement, NAFTA permits trade in services. In the chapter on national treatment, U.S. governments must give service firms in all three countries the same rights and privileges. Furthermore, there is no requirement that the service deliverer establish a local presence. A service provider can remain outside the country using labor also from outside the country.

For example, a governmental entity in the U.S. could decide to contract out for data processing services with a company in any one of the three countries. As a result, work that an AFSCME member might have been doing for years could, under

NAFTA, be contracted out and transmitted electronically to a private sector worker in Mexico who is paid one-tenth of the wages of the former U.S. worker.

NAFTA will make it difficult for the public sector to institute new public programs or institutions by first requiring it to consult with its trading partners. Then, if the new program infringes on an existing private entity performing the same function, the public entity would have to compensate the private one for any losses it might suffer. For example, if the federal government decided to institute a national child care program, it would have to consult with its trading partners and then compensate existing private day care providers who would lose money as a result.

NAFTA encourages public entities to contract out or privatize services, but makes it very difficult to move that service back even if the governmental entity decides that it was better or more economically performed by public employees. Once a service has been opened up to tendering, it could not be brought back in house without compensating the private entity for losses. Failing to do so would invite a challenge as an unfair trade practice. This is a glaring example of NAFTA's bias against the public sector. Having public employees perform public work could be cited as an unfair trade practice, while employing 12-year-old girls to work in a maquila in violation of each nation's child labor laws would not be subject to a trade sanction. NAFTA would permit governments to move in only one direction -- and that direction is to "go private."

NAFTA circumscribes the role of government in directing or regulating investment. In the investment chapter, for example, NAFTA prohibits governments from conditioning investment on various criteria. Governments may not require foreign investors to transfer technology, hire domestic scientists or managers, or purchase domestic inputs. These new rules would not only apply to North American investors, but also to outside investors. So, for example, the U.S. would lose the right to require Japanese auto companies to purchase a set percentage of domestic auto parts. This may benefit companies by freeing them from national rules, but it undermines the power of elected governments and adds workers to the rolls of the jobless.

There is still another area of concern regarding NAFTA's prohibition on the imposition of investment performance criteria. Truly successful policies for Enterprise Zones may require some type of investment performance criteria such as local purchasing, local hiring, utilization of local research and development expertise or production expenditure requirements. While the U.S. has reserved some rights in the government purchasing chapter of NAFTA to protect depressed areas and minorities, it is only certain that local hiring would definitely be permissible.

In the area regulating foreign investment, the United States appears to have ceded more than her northern and southern neighbors. In some circumstances NAFTA allows Mexico and Canada to regulate large amounts of foreign investment in their national interest while prohibiting similar actions on the part of the United States.

Government procurement laws would also be affected by NAFTA. With a few exceptions, all federal government purchases for goods and services above \$50,000 will be open to bids from any North American company. And, while the Government

Procurement chapter applies only to the federal government at the present time, it commits the parties to further negotiations "towards the substantial liberalization of their respective procurement markets." NAFTA states that these negotiations must commence no later than December 31, 1998, "following consultations with state governments." Clearly, the intent is to bring state and local governments into conformity. Governments across the country are major consumers of goods and services produced in their communities or states. Without this ability, local economies will suffer.

Although American legislators have successfully raised the issue of having NAFTA protect minority set-aside programs from the prohibition of "Buy American" laws, this may be a pyrrhic victory. When the federal set-aside laws have been challenged, it has been within the context of "Buy American" laws that placed minority and white owned businesses within the same arena. But, with the NAFTA minority firms are protected from international competition for bids, while white firms are not. This discrepancy is of a different nature, and may allow some white firm to successfully overturn minority set-asides. A careful reading of the Supreme Court ruling in the *City of Richmond vs. The Croson Company* suggests that proving discrimination in this new context will be difficult.

Finally, NAFTA is likely to put more crack cocaine on the streets of our inner cities. NAFTA proponent Gary Hufbauer described the likely expansion of the drug trade as being "in the too hot to handle category" and therefore not addressed by the NAFTA negotiators. But, on May 24, the New York Times broke a story headlined "Free Trade Treaty May Widen Traffic in Drugs, U.S. Says." A U.S. intelligence report warned that drug traffickers had started buying manufacturing, trucking and warehouse businesses as fronts for drug shipments. The report went on to warn that border controls are likely to get looser with the increased trade flow. This would permit more drugs to come into the U.S. from Mexico than come across at the present time.

Sadly, we know that most of these drug shipments are headed for our inner cities where unemployment is high and opportunities for a better life are few. Needless to say that local and state government, already lacking adequate resources for drug treatment programs and effective law enforcement, would be placed under tremendous additional strains. Any increase in the drug trade will only add to the already enormous human, social and economic suffering of individuals and communities.

A NAFTA defeat will not mean the defeat of efforts to build closer economic ties with Mexico. It will, however, give us the opportunity to develop a trade agreement which insures that the benefits from increased trade will also flow to the workers in all three countries. For the public sector, restrictions on governments' regulatory powers could be renegotiated to allow governments to act in the best interests of their country, even if that meant limiting the mobility of corporations. The goal of a continental economic development policy must be to raise the standard of living for the majority of people in the United States, Canada and Mexico, not lower them.

The European Community (EC) spent 20 years preparing for the common market agreement. During that time, Spain, Portugal and Greece were told that they

had to achieve democratic reforms before their applications for membership would be considered. The EC agreement includes a social contract which lays out a set of enforceable rules to protect workers, the environment and agriculture. The present NAFTA, even with the draft side agreements which have recently been made public, does not provide similar levels of benefits or enforcement mechanisms.

NAFTA is a massive gamble with America's economic future. If we are going to take that gamble, the odds should be stacked in favor of, not against, the majority of the people who live and work in the North American continent. This NAFTA, even with side agreements, will not meet that test. It will further entrench the polarization in wages and living standards, while eroding the already shrinking role of government.

I will be happy to answer any questions which the Committee may have. Thank you.

Mr. CONYERS. Well, I want to thank you for a penetrating statement and a clear analysis, and I am very delighted that you and your union have been giving this matter as much thought as is reflected in your comments here this afternoon.

I am very pleased now to invite the secretary-treasurer of the National Union of Public and General Employees from Ottawa, ON, to join us in this discussion, and we have a document that has been produced for this hearing and it is very impressive.

We are delighted to have you, Mr. Larry Brown. Join us at this discussion.

STATEMENT OF LARRY BROWN, NATIONAL SECRETARY-TREASURER, NATIONAL UNION OF PUBLIC AND GENERAL EMPLOYEES, CANADA

Mr. BROWN. Thank you, sir. It is a pleasure to be here and have a chance to put forward our point of view on this very important question. As I was listening this morning, I was reminded of a saying by one of your more famous philosophers, Casey Stengel, who said at one point it was *deja vu* all over again. As I was listening to your official witness this morning, I did have the unpleasant sense that I had been in this movie before.

We sat through the free trade debate in Canada, and whenever predictions were made about negative consequences of the original free trade agreement, we got the same sort of answers that you were getting this morning quite frankly, a pat on the head and the, "It is all going to be all right."

It turned out it wasn't all right, and perhaps what I can bring to this hearing is our sense of how damaging the original trade agreement was to us and some warning about how damaging the North American Free Trade Agreement could be to you.

We were not wrong in all of our dire predictions and this is one of the less pleasant times when we are able to say we told you so. It would be much more comforting to have been wrong. In fact, where we were wrong, it was in underestimating the damage that would be caused by the original free trade agreement.

We predicted job loss, predicted plant relocations, we predicted that industries would be harmed in Canada, we predicted that our social standards would be lowered. All of those have come to pass.

The original free trade agreement has been, in our estimation, nothing short of a disaster for Canadian workers. And let me mention that it has not been, to our knowledge, of particular advantage to American workers. It hasn't worked that way, that there has been some loss to Canadian workers equal to a gain to American ones.

By all the information we have, it has been a net loss for both because of economies of scale, and the dangers of moving into Mexico have more than compensated for whatever benefits you might have gotten for your work force.

The most significant affect of the original free trade agreement was on the tax revenues of our government. I want to zero in on that point now because there are a number of other considerations that arise for the public sector out of NAFTA, which I am sure your committee will hear about and have already heard about in other

briefs. But let me tell you about our experience in Canada with the effect on tax revenues of the original trade agreement.

Our Federal Government runs an agency called Statistics Canada which is world renowned as being a reputable, qualified gatherer of information. They tell us, since the free trade agreement was put into place, 408,000 manufacturing jobs have been lost in our country. They aren't able to say specifically that every single one of those is the direct result of the free trade agreement. But at some point, one's credibility has to be stretched if you say "free trade came in, we lost 408,000 jobs and there is no connection."

One of the arguments that we do get in counter to that is it was all the fault of the recession. That is simply not true and it is demonstrably not true. In the last several recessions Canada has gone through, we have lost a minimum number of jobs on a permanent basis with plant closures. This time around, 65 percent of the jobs that have been lost in Canada have been permanent jobs lost, not temporary closures, not temporary layoffs, but permanent plants closing up, moving into the United States or into Mexico.

Now, what that has resulted in, of course, is a loss of government revenue. And in our written submission, we painstakingly draw the connection, but I am sure it is obvious enough that I can skip to the next point which is to try and quantify that.

In order to quantify that, we took the figures from one of our more right-wing organizations in Canada, a group called the Fraser Institute, on which we share no common beliefs whatsoever. So we decided that, therefore, borrowing one of their figures might be a way of making our point, and by applying their average level of taxation of all types to the number of jobs that have been lost in Canada, we have come up with a figure of \$5.7 billion per year that has been lost to our governments.

We have been told by economists that there is a 10 times factor, that if there is something that happens in Canada, to get the equivalent in the United States you have got to multiply it by 10. Well, if I multiply \$5.7 billion by 10, I get a pretty phenomenal figure. The \$2.9 billion of the \$5.7 billion is Federal loss of revenue, \$2.2 billion is provincial loss of revenue, and another \$6.4 million is municipal, regional loss of revenue.

On top of that, on top of that direct loss of revenue that has got to be directly attributable to the free trade agreement, because those 408,000 jobs went somewhere as a result of something, we have also seen a corresponding increase in cost to government.

Obviously, short of letting people starve in the street, if you have got people unemployed and without the possibility of gainful employment, there is an increase in social service costs. We have quantified that in the \$10 to \$11 billion per year range. So we have had a decrease in government revenues of almost \$6 billion per year, an increase in government costs of about \$10 to \$11 billion per year as a result of the original free trade agreement.

There is a related issue which we haven't been able to quantify yet, that is, those plants that closed down themselves paid into government revenues. They paid property taxes, they bought hydro from our public utilities, they bought water from our public utilities. All of that is lost as well. We can tell you that there is another

figure on top of what we have quantified. We can't tell you what it is.

And finally, in terms of government revenue, there is a figure which one of our economic agencies in Canada says is about \$2 billion a year in foregone revenues from tariffs. You start to add all of that up, for a country our size, that is a relatively significant figure and it is huge.

The second major impact that we predicted as a result of the trade agreement is that there would be pressure to bring our social standards down to a level playing field that was unlikely to come up to our standards. It was more likely to go down to a lower one.

One of your witnesses this morning, with respect to him, is not here anymore, sort of pooh-poohed that idea and said it is more likely standards would come up. Our experience is they don't go up. They go down.

We had an unemployment system which, prior to the trade agreement, was substantially better than it is now. We haven't been able to find the smoking gun that provides the direct linear connection between those two. But if we presented our evidence in a court of law, the court of law would be tempted to agree with us that circumstantial evidence is that the free trade agreement forced our government to reduce those standards.

We have got less money paid out to our recipients. We have got—the Federal Government has bowed out of funding the unemployment insurance system, which is now paid for entirely by workers and employers. We have got voluntary quits, whatever that means in today's economic climate, that don't get covered by unemployment insurance. They used to.

We have got people fired for cause, again, whatever that means. That used to get covered by unemployment insurance by the Federal Government that doesn't get covered anymore, all of which brings our system much more in line with yours. I don't mean any disrespect to your system, but we would choose the one that we had in the first place and we would rather have kept it.

Instead of us being able to improve and build on our already existing system, in the face of an official figure of 11.6 percent unemployment, that is the official figure, the real figure is about 18 percent unemployment, our unemployment insurance standards are going down, not up.

Now, it seems to us that there is something kind of contrary in that. There are three reasons for that, interrelated reasons. One is the declining government revenues we have already talked about. The second reason is the increase in the drawdown on unemployment insurance because of the increased number of people unemployed. And the third is the level playing field argument which we have already pointed to.

Those are the experiences that we have already had under the original trade agreement. The NAFTA is going to make a significant difference in all of the already existing impacts. First of all, it defies belief that all three countries are going to see a job increase as a result of one trade agreement. That one is really—I have listened to economists explain that one to me and, with all due respect to the profession, I still don't get it. How are all three countries that have an unemployment problem suddenly going to

have their unemployment problem lessened as a result of them getting together? That is puzzling. I have never heard a satisfactory answer to that.

I think the more likely factor is, we are going to see our unemployment go up, not down, and we are going to see more pressure to go to the lowest common denominator. That isn't labor movement paranoia; it is based on our experience and it is also based on some statements in our brief.

The Wall Street Journal surveyed U.S. firms and they said a quarter of them only admitted they are going to use NAFTA to drive wages down. A quarter of them only admitted it. The others presumably were less open.

Mr. CONYERS. Who did?

Mr. BROWN. The Wall Street Journal did a survey of U.S. senior executives. In that survey, they said they expected to drive wages down as a result of NAFTA. Now, the March 1993 report by the Americas Society said that one of the things that was working against Canada as a location for investment was a pessimism about Canada's climate for business, which tends to make you think that you are going to have a climate for business that you choose under a trade agreement.

I want to draw your attention to what one of our official government spokespeople said, Quebec's delegate general. His statement was very clear. He said, "From now on when we examine such fundamental social issues as the benefits and costs of our educational system, workers' compensation, our health care system and our tax structure, we had better see that they are comparable with those in North Carolina or accept the consequences in terms of lost job opportunities for Quebec workers."

This is an official government statement about how they interpret the result of the first trade agreement. This isn't our view. We are just borrowing their own words on it.

The trade agreement, so-called, is probably a misnomer. It is about sovereignty. What it does is limit the right of governments to govern. Again, I want to quote two or three examples that prove that point. First of all, your David Rockefeller, and I mean your in a more sort of general sense, said that "persistent patterns of thought and behavior are going to require modification now that NAFTA is being put into place."

One of our proponents of the trade deal that talked about this being a matter of pooling or sharing our sovereignty said this: In a world where national boundaries are increasingly irrelevant, NAFTA critics adhere to outmoded concepts of economic nationalism and political sovereignty.

So political sovereignty is an outmoded concept according to the proponents of the trade agreements.

Our Fraser Institute I have already referred to. Its head, Michael Walker, says, "A trade deal simply limits the extent to which the U.S. or other signatory governments may respond to pressure from their citizens." That is a comforting thought. We have got a trade agreement that is going to limit your responsibility in response to your citizens.

I guess when you go back for reelection, as you were referring to a couple times this morning, you can tell your constituents

that—that you no longer have the right to represent them because it has been signed away in a trade agreement. I am sure they will be as impressed as our citizens are.

Coverage of NAFTA. You have had several comments made this morning that suggest that people can read the same agreement and draw different conclusions from it. NAFTA, specifically and explicitly, does not only limit national governments; it explicitly extends its coverage to areas of State; or, in our case, provincial jurisdiction.

On the face of the agreement it actually says that it is doing that. I am not entirely clear how several of your witnesses were able to draw the conclusion this morning that it doesn't. Because on the face of the record, that is what it does. It says that the very first chapter requires Federal Governments to enforce the terms of the treaty on provincial and State governments. That is what the agreement says, not our view of it.

There is clear understanding that State, and provincial—in our case, governments are being swept into the North American Free Trade Agreement with no direct access to the decisionmaking processes under it.

The Federal Government retains the jurisdiction to be part of the decisionmaking process, but State laws in your case, provincial laws in our case, are being covered by it. In fact, we have got a couple of our provinces that have publicly suggested that they don't accept the right of our Federal Government to engage them in a trade agreement internationally. The agreement is going to substantially alter their rights to govern within their jurisdictions.

It appears to us that our Federal Government didn't only surrender its own jurisdiction, but also jurisdictions they have no right to surrender.

Let me try and be a little bit briefer. I tend to want to go on on this subject, because it is near and dear to our hearts in Canada, but let me just say that the whole way that the trade agreement, so-called, treats public services as anomalies. They are things to be temporarily tolerated. They are a nuisance, they are nonconforming.

They are called nonconforming under the language of the agreement. The whole approach to public service is to say that if you manage to list all of them, which is an interesting trick, I don't know how many public services you are going to be able to find in your States.

We have only got 10 provinces. It is an intriguing trick to find every one of them and list them. If you forget them, it is not covered and you only get one shot at it.

You can list everything you want protected and if you miss any, in all of the areas of jurisdiction, any of those services are missed, they are swept away because they aren't protected. When they are protected, it is on a temporary basis.

The governments have agreed that they are going to renegotiate this thing to do away with more of these nonconformities, these oddities called public services. They are going to bring them more in line with the trade agreements as they go along. So public services are treated as something that you would rather not have. But you have to temporarily accommodate them, and you are going to

be moving more and more to limiting and containing the public services that are in place.

The only direction for public services will be contraction, not expansion. We have already seen the effect of that. We had a government in Canada under the original trade agreement that had promised—was elected on one of its platforms to bring in public automobile insurance. This is Ontario, with about 16 million people.

In that province, they decided after having campaigned on that issue for about 15 years, not to bring it in. And one of the reasons for that was under the trade agreement, an American company was already preparing a claim for \$1 billion in compensation for the loss of access to a public market.

Under the NAFTA, that provision is extended to the point that now individual companies are going to be able to make claims against the government if it brings in a new public service that interferes with their right.

If I was an American legislator, I would be quite curious about how this is going to affect the new—the concept of health care that is being talked about. I am fairly far away and I understand it is being talked about quite actively. So you have got a provision under NAFTA that says you can't have new public services without consulting with us, consulting with Mexico, and paying any company that could ever lose money under the deal; right? So you have got that on the one hand.

On the other hand, you are talking here about expanding a huge new area of public service. That is one that, if I was in your position, I would be quite curious about, because they are in contradiction.

Let me deal briefly with procurement and then try and discipline my time here. Procurement is explicitly covered under the trade agreement. No question about that. It says that Crown corporations, in our case, which are huge entities—and one of your witnesses listed several of them that you now have access to, like the Post Office, Canada has a number of them. Crown corporations or Crown agencies all are governed by the procurement rules, and that means that you have to treat companies from other countries as national citizens.

You can't have rules to exclude them, goods and services. It means you can't require them to leave anything when they come in and make their profit. They can't be required to even set up an office, let alone anything else.

So you don't even get the rent money from them, and one—I guess two of your witnesses this morning suggested that that is all a benefit to the United States. Well, those are double-edged swords, Mr. Chairman, and what happens with that is that our companies now have an absolute right to come in and bid on any of your government services, goods or services, and so do Mexican companies, and you can't require our companies anymore to set up so much as an office.

You can't require them to have a post office box here. They have to be treated as national entities. And you can't make any requirements of them whatsoever.

What your witnesses this morning didn't mention is that while that may be of some advantage to our companies bidding on our small governments' contracts, it is a double-edged sword and you can't make those requirements of our companies either.

Two final points. Professional standards, there is buried in NAFTA a huge, I don't know, a "sleeper provision," we called it in the brief, that says that professional standards will be harmonized and within 2 years will not have any nationality requirements allowed in our professional standards. We are going to be bringing all of our standards down—sorry—we are going to be bringing all of our standards into a common position.

Your history, your culture, your experience in this country is different than ours. Professional standards, education, health care, a number of areas have to be reflective of the country of origin, its history and its whole level of development. What the NAFTA says is that for our teachers, our nurses, our doctors, our paraprofessionals, all of the people that have professional standards are going to end up having those standards harmonized.

And the final point with respect to health care, let me just say that we are not in this area either simply basing our opinion on belief. We are basing it on experience. We had a system in Canada that said that after 10 years, drug companies had to open their patents, that they could no longer sell their patent drugs privately, that generic drug manufacturers could manufacture, pay a license fee to the original developer, and we brought drug prices down by billions of dollars a year as a result.

As a direct consequence of NAFTA being signed, our government was forced, they say, and they did it, so we assume that they were right, was forced to extend patent protection over drug companies that the Wall Street Journal says is already the most profitable industry in North America. We were forced to extend drug patent protection to drug companies from 10 to 20 years as a direct result of NAFTA. All of their arguments about retaining sovereignty are false, and all of our arguments about the impact on sovereignty are true.

The cost to Canadians is going to be—one of your research organizations estimated it at \$500 billion over the course of the next 10 years. It is a staggering amount of money. I don't even understand how big it is, just huge impacts as a result of that one change alone.

So let me conclude by perhaps making what I have been saying a tad obvious, we are not in favor of the North American Free Trade Agreement. I kept that for a surprise at the end. And we don't think it can be fixed. We think that the whole premise of the agreement is not a deal between countries; it is a deal that the country signed on behalf of the companies that exist within them, and what we have got is an economic constitution for companies in North America, not something that is of benefit to our citizens.

Thank you for listening.

[The prepared statement of Mr. Brown follows:]

National Union

**SUBMISSION TO THE
LEGISLATION AND NATIONAL SECURITY
SUBCOMMITTEE OF THE
HOUSE COMMITTEE ON
GOVERNMENT OPERATIONS
ON THE PROPOSED
NORTH AMERICAN FREE TRADE AGREEMENT
(NAFTA)**

Washington, D.C.

July 27, 1993

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I. INTRODUCTION

The National Union of Public and General Employees would like to thank the members of the Legislation and National Security Subcommittee of the House Committee on Government Operations for permitting us to provide them with our input on the effect of the North American Free Trade Agreement (NAFTA) on the public sector.

Before going on, let us tell you about the National Union. Founded in 1976, the National Union is now Canada's second largest union. We have 13 components, and represent 308,000 working people across the country. Approximately 59 per cent of our members work directly for Canada's provincial governments. The National Union's members also work in a variety of other areas: hospitals, schools, correctional institutions, crown corporations, tourism industry, breweries, and liquor stores. Our membership covers a broad occupational spectrum from clerks to engineers, from nurses to janitors, from health inspectors to heavy equipment operators. Our members are women and men, young and old, urban and rural, representative of all of Canada's ethnic and racial groups.

Our views about NAFTA are based on our unhappy experiences with its predecessor, the Canada-U.S. Free Trade Agreement (the FTA), upon whose principles and sections NAFTA would build. Like other Canadians, the Canadian labour movement is now in a position to judge the benefits of the FTA on the basis of performance, rather than on what have turned out to be empty government and corporate promises of job gains, increased investment, and other economic benefits¹.

By way of contrast, it is worth recalling that in the period leading up to the implementation of the FTA, Canada's labour movement pointed to the possibility of large job losses as U.S. and Canadian corporations "restructured" by concentrating their production for the entire North American market in relatively low-cost U.S. plants. The core of our argument, which has regrettably since been validated, was that transnationals operating in Canada were much more likely to close their mainly domestic market oriented Canadian branch plants, and shift product lines to lower-cost factories in the U.S., than to expand the Canadian operations for a wider market.

¹ The following paragraphs have been adapted from the January 28, 1993 Submission by the Canadian Labour Congress on the North American Free Trade Agreement to the Subcommittee on International Trade of the Standing Committee on External Affairs and International Trade, pages 2 and 3.

Prior to the implementation of the FTA, Canada's labour movement had also warned that Canadian companies would move to the U.S., particularly to regions of the U.S. where there was no minimal wage, no health and safety laws, and where unions were seriously discouraged through deterrents like "right-to-work" laws. We had also suggested that as an alternative, those companies would demand the same conditions they would get in those states. All of this has also happened.

Even more importantly, the Canadian labour movement argued that the deal would strip us of the levers to build a thriving economic base in Canada, and that the FTA would lead to a loss of our productive base as a country. This too has occurred.

Indeed, the experiences of the last four and a half years show that the FTA has been nothing short of a disaster for Canadian workers. Our fear, based on our experience with the FTA, is that if NAFTA is implemented, all of these trends will continue, and intensify.

But it wouldn't only be Canadian workers and Canadian communities that would suffer. This time, American workers and American communities would suffer as well.

In this submission, the National Union will be documenting two of the ways in which this would occur. In Section II, we will be dealing with the effects of "free trade" on taxation revenues, and the financial positions of governments at all levels. To our knowledge, this is the first time anybody has estimated the financial impact of "free trade" agreements on such indicators as government debts and deficits.

In Section III, we will then go on to show the specific impact of NAFTA on the public sector.

II. THE EFFECTS OF "FREE TRADE" ON TAXATION REVENUES

(a) Some Introductory thoughts

There are many things we could tell you about our experiences with the FTA, and about how they would intensify under NAFTA. The FTA, and NAFTA, affect so

much of our daily lives, and so much of our economic, social, and political environment – far more than the term "free trade" suggests².

As author Jim Sinclair has observed:

"The free flow of goods, services, resources and capital between the three nations [under NAFTA] will result in more power being held in boardrooms by executives who make fundamental decisions about our countries without reference to the ballot box or democratic process.

"Fair labour standards, sustainable environmental practices, and national sovereignty are completely ignored by the architects of this deal...Free trade, as the majority of Canadians have come to know, has little to do with trade and everything to do with the domination of the government and the economy by national and international corporations...

"The losers of this new deal will be the majority of Mexicans, Canadians and Americans³."

The National Union knows that in the course of the presentations that will be made to this Subcommittee, its members will have ample opportunity to examine these issues in detail. Our purpose in coming to Washington isn't just to re-hash or reformulate material you can readily obtain from others. What we therefore would like to focus on in this section is something that, to our knowledge, nobody else seems to have assessed: namely, the impact of NAFTA on the revenues your governments, at all levels, need to carry out their programs and deliver their services.

Before proceeding, let us remind you that in making U.S.-Canada data comparisons, the rule of thumb is that there is a ten-to-one ratio (for example, a \$1 billion impact in Canada would translate into a \$10 billion impact in the United States.) This reflects the ratio of your population base to ours.

² In fact, the term "free trade" is a misnomer, since neither the FTA nor NAFTA are primarily about freeing trade from protective tariffs. Prior to the FTA, 80% of the trade between Canada and the United States was tariff free, and existing tariffs averaged only 5%. See Canadian Union of Public Employees, NAFTA: A New Economic Constitution, Submission to the House of Commons Subcommittee on International Trade, February 3, 1993, page 7.

³ Jim Sinclair, editor: Crossing the Line: Canada and Free Trade With Mexico, New Star Books, Vancouver (1992), Editor's forward, pages vii and viii.

(b) Federal, provincial, and municipal taxes

In a brief to a Sub-Committee of the Canadian House of Commons⁴, the Canadian Labour Congress outlined its objections to NAFTA. A table in the CLC's brief used data from Statistics Canada, the Canadian government's world-renowned central statistical agency, to show the manufacturing job losses that could be linked to the FTA. That table, much of which has been reproduced in Table A at the end of our submission, indicated that 408,000 manufacturing jobs had been lost since the inception of the FTA⁵ -- which means that Canadian manufacturing jobs have disappeared at four times the rate at which manufacturing jobs have disappeared in the United States during the same time period. The manufacturing job losses that occurred in our country represented just over 21% of the manufacturing jobs that had existed prior to the FTA.

To respond to an obvious question, most of these job losses and related plant closures had very little to do with the recession both of our countries are experiencing. In the Province of Ontario (where a more-than-disproportionate share of Canada's economy is based⁶), 65% of the manufacturing jobs lost from 1989 to 1991 were due to permanent plant closures, as opposed to the temporary layoffs that would have occurred during a periodic cyclical downturn. During the 1981-82 recession, permanent plant closures caused 22% of manufacturing job losses⁷.

Despite the job losses that have occurred over the past several years, there have been concentrated efforts, by Canada's federal government, its corporate community, and others, to convince Canadian citizens that our most serious problem is government debt, and that it must be dealt with through large expenditure cuts. We've been told that public programs, in health care, education, social assistance and welfare, and other areas have to be scaled back, and that

⁴ See footnote 1.

⁵ All told, some 800,000 Canadians have joined the official unemployment rolls since the onset of the FTA, pushing the national unemployment rate from 7.6% to 11.4%. An additional 397,000 people who wanted to work full-time could only find part-time jobs. And there are now 451,000 fewer people employed than there were when the FTA was implemented. See Statistics Canada, The Labour Force (Catalogue 71-001) and Employment, Earnings and Hours (Catalogue 72-002).

⁶ Among other things, Ontario is responsible for 40% of Canada's Gross Domestic Product (GDP).

⁷ Data from the Ontario Ministry of Labour, cited in Canadian Union of Public Employees: NAFTA: A New Economic Constitution, page 11.

we have to stop "living beyond our means". We've been told that jobs have to be eliminated, and wages reduced, not only in the public sector, but also in the private sector.

This, we've been told, will address the debt problem, and ensure that Canada gets the "lean and mean" look it needs to remain globally competitive.

The people promoting this view rarely seem to acknowledge that debts and deficits have two sides, and that it might be the revenue side of the equation that is a major cause. And they rarely seem to acknowledge the contribution of public investment to making a country more globally competitive, and the decrease in competitiveness and productivity that results from reductions in government spending⁸.

The link between FTA-related job losses and government debt

Is there a link between the FTA-related job losses that have occurred over the past four years, and the growing government debts and deficits that have occurred? As the data we will be presenting in what follows shows, there clearly is.

The reason is that there is a fundamental causal relationship between jobs, wages, and deficits. People who have jobs, and who feel economically secure, buy goods and services, and pay taxes. When they buy goods and services, businesses and local communities prosper. When they pay taxes (\$22,946 for the average Canadian family, according to the right-wing Fraser Institute, when all types of taxes are taken into account⁹), the revenues that result don't only go towards providing public programs and services. They also help lower governments' debts and deficits.

When people lose their jobs, as a result of bad trade agreements, government cutbacks, or other reasons, all of this works in reverse: businesses close down, communities suffer, and government's tax revenues decrease. Government expenditures, especially those related to social services and welfare, increase tremendously. This causes debts and deficits to go up.

⁸ See Harry H. Postner, "A Note on Infrastructure and Productivity", Discussion Paper No. 93-12, Government and Competitiveness, School of Policy Studies, Queen's University, Kingston, Ontario. Postner says that 10% of the productivity slowdown Canada experienced in the 1970s can be attributed to a drop in government investment in the economy, and 20% of the revival of productivity experienced in the 1980s can be traced to a pick-up in spending on public projects.

⁹ Press release, June 10, 1993, and attached table.

Analysis

To show the effects of these FTA-related job losses on government debts and deficits, we started with employment data appearing in Statistics Canada's Employment, Earnings and Hours publication. We then used annual wage figures by industry sector, collected by Statistics Canada, to estimate the lost wages associated with these job losses.

The results can be seen in the last column of Table A, where it has been shown that the annual wage losses from these lost jobs are over \$12.4 billion.

Table B, which also appears at the end of our submission, estimates these wage losses by province.

Having determined the wage effects of these job losses, we then estimated the tax effects. As noted earlier, people who work pay taxes, both directly, in terms of income taxes, sales, and other taxes; and indirectly (as one example, the price paid for a good or service contains a component that contributes to corporate taxes). As citizens, they also pay property and other taxes. All of these taxes become the revenues of governments, and are used to provide public programs and services¹⁰.

To determine the tax losses associated with these wage losses, we began with a modified version of data presented in the annual "tax facts" compiled by the Fraser Institute¹¹. These show the taxes paid by Canadian families to the three levels of government, to fund public programs and services. Based on this modified data, we were able to calculate the aggregate revenue loss to each level of government associated with the loss of the 408,000 jobs referred to above. This revenue loss constituted an addition to the annual deficits of those levels of government.

¹⁰ As a result of the monetary policy carried out by the Bank of Canada, interest rates were kept at a very high real level for several years. The purpose was to target inflation, which was never at a high level during the period in question. One result of this policy has been that an increased portion of government expenditures at all levels has gone towards servicing the public debt. This has benefitted large corporations and others with money to invest in relatively safe instruments like government Treasury Bills.

¹¹ In no way do we agree with the way in which the Fraser Institute uses this data -- to "prove" that corporate Canada and ordinary citizens pay far too many taxes, and receive few benefits. While ordinary citizens, particularly low-income earners and the middle-class, have become increasingly burdened by taxes, our research has shown that large corporations and the well-to-do have done relatively well under tax "reform" implemented by our current federal government.

The results of this analysis are shown in Table C, which also appears at the end of our submission. As can be seen from that table, the taxation revenues lost as a result of these job losses adds almost \$2.9 billion to the federal debt each and every year; \$2.2 billion to provincial debt; and \$604 million to municipal debt -- a total of \$5.7 billion.

But that isn't the only effect of these job losses. When people are without work, there is a greater reliance on the programs offered by provincial and municipal governments -- particularly social services and welfare. Evidence can be found in public sector data issued by Statistics Canada, which shows that the total annual social services expenditures of all of our provincial governments have increased by over \$8 billion since the implementation of the FTA. In Canada, social services are also provided by municipal governments, and while updated data are not yet available at that level, the annual increase is likely in the \$2-\$3 billion range.

The total annual increase in social services expenditures across the country is therefore in the \$10-\$11 billion range. While not all of this can be attributed to the FTA-related job losses cited above, much of it can, as a result of workers without jobs and their families becoming more dependent on government support and public programs.

A related issue

An issue closely related to the above is the direct revenues that have been lost to governments as a result of plants having closed down operations, in terms of such things as corporate and property taxes, licenses and permits, hydro-electricity and gas purchases, and so on. Our feeling is that the amount is quite significant. As an example of what we mean, consider that between the implementation of the FTA and the end of 1992, the Ontario government documented 397 complete plant closures¹², as production shifted to U.S. and even Mexican locations¹³.

Although we have not been able to estimate the monetary effects of these closures in this submission, we would advise the members of this Subcommittee to keep them in mind as they evaluate the potential effects of NAFTA.

¹² New Democratic Party Research, "Notes on NAFTA", unpublished document, December 11, 1992.

¹³ Selected production and job shifts from Canadian to U.S. and Mexican locations for the 1991 calendar year are documented in Campbell, Bruce: Canada Under Siege: Three Years into the Free Trade Era, Canadian Centre for Policy Alternatives, January 1992.

Foregone tariff revenues

A similar concern is as follows.

Those who favour "free trade" want us to accept that some industries -- the ones we aren't particularly good at, or the ones where labour or other costs are high -- have to fall by the wayside. It's all part of letting "global forces" do their work. Governments shouldn't get in the way, since that would create "inefficiencies". If we lose jobs to Mexico as part of a continental agreement, we shouldn't have been producing auto parts, or whatever else moves to Mexico, in the first place.

Unfortunately, the "free markets" that are so often referred to, in order to justify this line of reasoning, only exist in economics texts. A main reason is that governments -- and yours are no exception -- often intervene in the market, for various reasons. Typically, they may want to build up particular industries and industry sectors. Or they may want to protect jobs and local communities. Such intervention, which may include the imposition of tariffs and other trade "barriers", subsidies, and similar mechanisms, takes place to ensure that industries, communities, and people do not fall by the wayside in the face of rapid global change. Intervention in the market can also ensure that industries can capture the profit and wage levels, market niches, and technological advantages they really need to compete in global markets.

In short, while we are not necessarily saying that trade barriers should remain in place, we are also saying that there must be adequate proof that removing such barriers, in whole or in part, results in a net benefit for a community or country.

One of the other benefits that could be foregone is government revenues.¹⁴ Again, while there may be good reasons for governments to give up those revenues, this revenue sacrifice should be kept in mind as governments try to address their debt and deficit problems -- particularly if there are few, if any compensating benefits and a lot of additional costs.

(c) Unemployment Insurance

The figures in part (b) above, as significant as they may seem, don't show the total effects of FTA and NAFTA on governments' financial positions, and on their ability to deliver public programs and services. There are other correlations worth discussing.

¹⁴ In 1988, the Economic Council of Canada estimated that \$2 billion a year in customs duties were paid on imports from the United States. See Economic Council of Canada: Venturing Forth: An Assessment of the Canada-U.S. Free Trade Agreement, page 7.

While the Canadian and American economies are similar in many ways, a major distinguishing characteristic is that ours is based on the European model much more than yours is. In concrete terms, this means that we have a relatively larger public sector (our public sector is between one-quarter to one-third larger than yours, on a relative basis¹⁵); and that our public sector provides a wide array of programs to ensure, to the extent possible, that public services are accessible and affordable to all, regardless of their ability to pay; and that people don't "fall through the cracks" when they are most in need.

The system is far from perfect, and certainly needs a lot of improvement after the funding cuts that have occurred over the nine years our current federal government has been in power. But a good deal of the time it seems to work for the majority of Canadians. Our national Medicare system, one which is currently being examined in your country, is probably the best-known example of what we are referring to. Our national Unemployment Insurance system (which covers about 75% of unemployed Canadians¹⁶, versus the 16.8% to 68.1% covered by your various state programs¹⁷) is another¹⁸.

There are many other social programs we could refer to, but the main point is this. All in all, the vast majority of Canadians are proud of their social programs, which we like to think define us as a more caring society than other countries.

Prior to the implementation of the FTA, the labour movement and other opponents charged that as a key component of the deal, big business had a hidden agenda to cut Canadian social programs, on the basis that these programs imposed additional costs on the corporate community as they attempted to compete in global markets. The business community denied this charge, and were backed by our former Prime Minister himself.

Since the implementation of the FTA, however, Canadians have witnessed, and felt, an ongoing effort to harmonize our social programs downward. We have seen, as examples:

¹⁵ John Calvert, "A Smaller Public Sector", in Canadian Union of Public Employees: The Facts on Free Trade, Spring 1988, page 42.

¹⁶ Coalition Against Free Trade, "What's the Big Deal? Some straightforward questions and answers on free trade", pamphlet, 1988.

¹⁷ Based on 1990 data obtained from the Center on Budget and Policy Priorities by the AFL-CIO.

¹⁸ The maximum Unemployment Insurance benefit is \$425 per week, or 76% of the average weekly industrial wage. In 1992, the average UI claimant received \$253 per week in benefits. Source: information obtained from Canada Employment and Immigration.

- the end of universality as a basic principle in our social programs, in such areas as pensions and child care benefits;
- the end of government contributions to Unemployment Insurance, and changes to that program, in 1990 and 1993, which reduce benefits, and which make benefits both more difficult to obtain and more difficult to retain;
- the cancellation of a promised national child care program;
- massive cuts to funding for health care, post-secondary education, and social services, which have been estimated to have amounted to \$41 billion to date¹⁹, and whose cumulative effects will be a staggering \$97.6 billion by the year 2000²⁰; and
- other public sector job, wage, and program cutbacks, at both the federal and provincial levels, to greatly lessen government's role in the economy.

This hasn't ended, by the way. The corporate community is still calling for more cuts in spending -- social spending to cut government debts and deficits at the same time as they transfer jobs out of the country²¹, and as unemployment and poverty get worse.

As we continue our discussion of the financial impact of NAFTA on governments, we would like to tell you about the cutbacks to our national Unemployment Insurance program.

When the FTA was being debated in our country, we argued that there would be downward pressure on our social programs to harmonize them with those in the U.S., to achieve the infamous "level playing field".

Since the FTA, the changes that have occurred in our Unemployment Insurance system have taken place in order to bring that system more in line with that of the one existing in the United States -- where, as we have noted, coverage is far less comprehensive. Admittedly, we don't have "proof" in the sense of an open acknowledgement by our government about what has been taking place. But we

¹⁹ Province of Ontario, Financing Canada's National Social Programs: The Need for Reform, paper released at the first minister's conference, Toronto, March 1992.

²⁰ National Council of Welfare: Funding Health and Education: Danger Looming, Spring 1991, Table 1.

²¹ See Dave Barrett, M.P.: Free Trade: The Sellout, pages 47 and 48.

do have overwhelming coincidence, sufficient to be compelling circumstantial evidence, that our prediction about FTA's effects on our UI system have come to pass.

A prime example is that our system used to cover the vast majority of those who were unemployed, however they got that way. Now, those who are deemed to have quit "voluntarily", or who are deemed to have been fired "for cause", are no longer eligible. This makes our system much more compatible with the U.S. system.

Moreover, with regard to benefits for those who do remain eligible, they used to amount to 60% of eligible earnings. In the last round of cuts that was reduced to 57% -- which again brings us closer to the U.S. average.

Another issue is that the U.S. system varies state-by-state. In Canada the government has moved to end its funding of UI except in deficit situations, which many see as a move to a provincial UI system, particularly when it is seen in the context of the federal government's stated objective of devolving many of its national labour market programs to the provinces. In a provincial system, standards, funding levels, and coverage could vary quite significantly across the country.

A cut in federal funding, lower benefits, longer eligibility requirements, no coverage for "voluntary" quits or firings "with cause" -- all concurrent to the implementation of the FTA. Most criminal trials would accept this as sufficient circumstantial evidence for a conviction.

There are, we suggest, three inter-related reasons for the lowering of Canada's social benefits, including UI. The first is the huge decline in government revenues as a result of the FTA related job losses -- the type of relationship we showed earlier. The second is the greatly increased costs of these programs, again because of those job losses, and the resultant need for people to become more dependent on public programs. The third is the search for "competitive advantage", the need for the lowest common denominator to prevail, no matter how badly people and communities get hurt in the process.

With NAFTA, the new "level playing field" will be the lowest of the common denominators between the three countries. What should be happening, in our view, is quite the opposite: trading relationships that raise the standards of those at the bottom, so they attain those enjoyed by those at the top -- the "highest common denominator", if you will.

What has been the impact of the changes to the UI program since the inception of the FTA? In a recent study, the National Union considered the changes that

were made earlier this year, which eliminated the benefits paid to people who were now deemed to have "voluntary quit" their jobs (under a set of mostly nasty criteria issued by the federal government); and which decreased the weekly benefit rate for those who still qualified.

The problem was that with an "official" national unemployment rate of 11.4% (and an "unofficial" rate of 18% -- when discouraged workers and people who involuntarily work part-time or short-time are taken into account), a significant portion of the so-called "voluntary quitters" had no chance of finding another job. With no other sources of income, many would have to apply for social assistance and welfare. As mentioned earlier, these programs are delivered by provincial and municipal governments.

Moreover, even among those who qualified for Unemployment Insurance, the problem was that with less of an income from benefits, they would have less money to spend in their communities. This translates into fewer tax revenues for governments, similar to the effects we discussed earlier.

Our analysis looked at the impact on provincial governments from the changes to the federal Unemployment Insurance program. As can be seen from Table D, found at the end of this submission, the total annual effect on provincial governments will be around \$1.2 billion! This will be yet another impediment to those governments as they attempt to deliver social and other programs. Moreover, the increased deficits that have resulted could very well serve as an "excuse" for further program cuts just when people need help the most.

III. NAFTA AND THE PUBLIC SECTOR

a) Introduction

Now let us deal with the more general impact of NAFTA on the public sector.

On the face of it, one would expect a "trade" agreement to be about trade, and that it would therefore have the most impact on the private sector. The proposed NAFTA, however, will have a huge impact on the public sector in Canada -- and in the other signatory countries, as well.

We have already examined the revenue impact of the FTA and the huge consequences of that agreement on the tax bases of Canada's federal, provincial and municipal governments. The NAFTA, to the extent that it will make these problems worse -- does anyone seriously agree that there will not be substantial

job loss in Canada (and the U.S.) as a result of NAFTA? -- will multiply existing difficulties. As we said earlier, NAFTA builds upon the FTA -- therefore, new problems would build on existing ones.

In addition to this, however there is something else, namely that the pressure to equalize social programs, labour laws, and environmental protection will become more pronounced under NAFTA. And while it is theoretically possible to have all these equalized at their highest point, common sense says they are more likely to equalize at the "lowest common denominator".

As an example, a Wall Street Journal survey of senior U.S. executives revealed that one-quarter of the respondents openly admitted that they expected to bargain wages down using NAFTA as a tool.²²

Along similar lines, a March 1993 report by the Americas Society identified three major factors working against Canada as a location for manufacturing. One of them was "...pessimism about Canada's climate for business". Labour legislation and environmental standards -- things which Canadians have worked hard at to improve, and which we are trying to augment even further -- were also perceived as threats to the ability of U.S. subsidiaries to continue producing in Canada.²³

Quebec's Delegate General to New York has spelled this issue out even more clearly:

"From now on when we examine such fundamental social issues as the benefits and costs of our educational system, workers' compensation, our health care system and our tax structure, we had better see that they are comparable with those in North Carolina or accept the consequences in terms of lost job opportunities for Quebec workers."²⁴

While we do not want to cast aspersions on North Carolina, the fact is that in these particular program areas, Canada's system is far more progressive than North Carolina's. In our view, a trade agreement should be aimed at helping the citizens in that state and elsewhere attain the higher standards that might prevail elsewhere, not the opposite.

²² "Notes for a Presentation to the Canadian Association of Labour Lawyers on the Impact of NAFTA on Canadian Labour", Bruce Campbell, Research Fellow, Canadian Centre for Policy Alternatives, June 5, 1993, page 7.

²³ Ibid, page 7.

²⁴ Ibid, page 10.

b) Trade or sovereignty?

We are also concerned about how NAFTA will weaken the ability of the three governments who are signatories to make independent decisions in the best interests of their respective citizens. The reason is that NAFTA is an agreement as much aimed at limiting the sovereignty of nations as it is about expanding trade.

Journalist Linda Diebel said it best, when she stated the following about NAFTA:

"Its basic premise is no-holds-barred free enterprise for all of the Americas. Big business would set the rules; there would be few or no regulations to impede industry. It would be survival of the fittest."²⁵

Of course, notes Diebel, society itself would have to change to ensure that NAFTA could be "successful". According to industrialist David Rockefeller, whom Diebel quotes, "persistent patterns of thought and behaviour... require modification" for the free trade that is contemplated under NAFTA to function effectively.²⁶

As Canadian free trade proponent, one Don Etchison, has said, NAFTA is about "sharing" or "pooling" sovereignty.²⁷ Etchison elaborated on this concept as follows:

"In a world where national boundaries are increasingly irrelevant, NAFTA critics adhere to outmoded concepts of economic nationalism and political sovereignty."²⁸

Behaviour modification? Changes in society? Pooling sovereignty? Outmoded concepts?

Michael Walker, the chief spokesperson for Canada's most right-wing pressure group, the Fraser Institute, was even blunter:

²⁵ Linda Diebel, "North American Free Trade: Special Report -- Kissinger's 'Truly New World Order'," Toronto Star, February 7, 1993, Page B1.

²⁶ Ibid.

²⁷ Ibid.

²⁸ Ibid.

"A trade deal simply limits the extent to which the U.S. or other signatory governments may respond to pressure from their citizens."²⁹

Precisely. The untidy limits of democracy must not be allowed to impede the perfect symmetry of the marketplace. Democratic governments have to learn their place, and their constituents learn their limits -- whether imposed by multinational corporations, the World Bank, or the IMF.

Indeed, the NAFTA contains thousands of pages of limits on what the governments of Canada, the U.S., and Mexico, will be allowed to do once the agreement is ratified.

Not rights. Not obligations. Limits.

A bit scary for democratic countries, isn't it?

c) Coverage of NAFTA

The NAFTA doesn't only limit national governments, by the way. It also extends the areas of jurisdiction that are covered to include provincial and local governments. The very first chapter, for example, requires federal governments to enforce the terms of the treaty on provincial (or state) governments. Federal governments are committed to expand the procurement rules to the provincial (state) level. Provincial (state) regulations are specifically not allowed to extend a preference for nationally produced goods.

Because this is an international agreement, however, federal governments remain the responsible bodies for enforcing compliance. There is absolutely no provision for provincial (state) involvement in the dispute settlement procedure, even though they are affected so comprehensively.

Moreover, governments that weren't involved in, or even consulted about, trade deal negotiations are swept into its provisions -- even though it's not constitutionally clear that the national government of Canada has the right to agree to deals requiring substantial changes in provincial jurisdictions; and even though the enforcement of these questionable rules remains at the federal level.

Our federal government seems to have surrendered more than its own sovereignty. It has surrendered provincial powers as well.

²⁹ John Calvert, "A Smaller Public Sector", in Canadian Union of Public Employees: The Facts on Free Trade, Spring 1988, page 42.

d) Public services as anomalies

Another issue is that under NAFTA public services are only seen as anomalies, to be temporarily and grudgingly tolerated. Furthermore, where existing services are given exemptions from the terms of NAFTA, the services are specifically termed "non-conforming", certainly a pejorative term.

All of those "non-conforming" public services that governments wish to protect have to be officially listed within two years, or they automatically lose their exempt status. Given the number and complexity of federal, provincial, and local programs, that's a very tough order to fill. Some will undoubtedly be missed. Moreover, governments must spell out, when they provide their lists, how they intend to bring so-called "non-conforming" public services under NAFTA rules.³⁰ The lists are all subject to revision.

Furthermore, the very language that supposedly protects existing public services under NAFTA is very weak:

"Nothing in this Chapter shall be construed to prevent a Party from providing a service or performing a function such as law enforcement, correctional services, income security or insurance, social welfare, public education, public training, health, and child care, in a manner that is not inconsistent with this Chapter."³¹

There are three dangerous limitations in this "protection". The first is that any listing can be used as a limitation, meaning that any public services that are not specifically included in the listing will be more difficult to protect.

The second is that it will likely be only those things intrinsic to the service that are protected, not the provision, for example, of food services, laundry, supplies, etc.

And perhaps worst, even these exemptions can only be offered in a manner that is not inconsistent with the overall agreement.

Governments acting through the agency of Crown Corporations or government owned monopolies are seen as a particular oddity under NAFTA. Article 1502 says:

³⁰ North American Free Trade Agreement, Article 1208.

³¹ NAFTA, Articles 1102.1, 1201.3(d).

"Any government monopoly (must) act solely in accordance with commercial considerations" and must "provide non-discriminatory treatment to investors, goods and services providers of another Party."

Canada's history of using government owned enterprises -- Crown Corporations -- as a tool in the development of the country, a tool for regional development or equalization, a tool for job creation, a tool for stimulating local industry, even a tool for environmental control -- all these uses are therefore made problematic. None of those purposes is purely commercial, and some of them rely on the ability to support local or regional suppliers.

The goal is market control. Public services are tolerated only if they are listed; subject to review; subject to moves to make them "conforming"; basically consistent with the agreement; and provided in a purely commercial manner.

The whole approach to public services is therefore that they are, at best, a necessary evil, to be constrained and circumscribed, no matter how much they are needed to help ordinary citizens or support the private sector; and no matter how much they serve to act in the interests of domestic economic development.

e) Contract, don't expand

It is therefore clear that the provision of new public services, or the expansion of existing ones will become almost prohibited under NAFTA. This will be bad news for many people; for example, those who support a national child care policy in Canada, or a new health care system in the United States. Governments can list only existing services as exempt from NAFTA, not anticipated or desirable ones.

Governments can only provide these existing services within the content of further reviews, to reduce their scope, and their non-conformity with NAFTA. Further, they can only continue to offer these exempted services so long as any change to the program "does not decrease the conformity of the measure" with NAFTA.²²

And before governments can offer any new service or program, they have to consult with the other two parties to the agreement. Those governments wishing to offer the new services would then have to be prepared to pay compensation to companies from either of the other two countries, for any loss or potential loss in market opportunities caused by the new public service or program.

²² NAFTA, Article 1206.1(c).

Canada has already seen one of the effects of this kind of provision arising out of the original FTA. The Province of Ontario changed its long standing commitment to provide public automobile insurance. That change was prompted by more than one reason, but among them was the fact that U.S. auto insurance companies began to prepare claims for more than a billion dollars in compensation if Ontario brought such a scheme into being.³³

The chilling effect of the ability to claim for compensation is added to by the fact that under NAFTA (unlike under the original FTA) individual corporations would be able to file a claim for compensation directly before international tribunals. This would eliminate any filtering or politically limiting impact that governments provide when they are in a position to decide whether a claim should be approved, and under what conditions.

f) A related issue: the ratchet effect

A professor from the University of Toronto, David Clandfield, has been credited with the phrase "the ratchet effect" to describe the following one effect of NAFTA.

Only existing services are exempt. Government services can move in the direction of more open competition and more trans-border bidding -- not the other way around. Article 1206.1(c) allows amendment to existing programs only if the amendment does not decrease the conformity of the program to NAFTA.

Article 1207 requires ongoing negotiations at least every two years for the purpose of seeking the liberalization or removal of restrictions -- never the development of further "restrictions" that may be required to benefit citizens, local communities, or national interests.

Let's make this clear. Motion is permitted, but in one direction only. Services can only be contracted out to the private sector, not brought back into the public sector. If a service was "re-publicized", it would be subject to challenge as a "new" program.

The classic ratchet. "A wheel or bar with teeth -- fixed so that motion is permitted in one direction but not in another."

³³ Insurance Week, August 18, 1991.

g) Procurement

Article 1204 provides that all features of government procurement practices must be reviewed to bring them within the obligations of NAFTA.

Basically, what that means is that governments, when purchasing goods or services as a normal part of providing their programs, must open up the bidding on these goods and services to corporations from the other two countries.

Governments must offer the equivalent of national treatment to these non-national companies. In other words, governments must treat companies from the other two countries as if they were from their own country. That means of course, that government procurement policies cannot favour local or regional companies to enhance economies or job markets, or to help particular regions or communities. Why have a government in the first place if it can't direct its energies at bettering the lives of its constituents?

Article 1202 of NAFTA says:

"1) Each Party shall accord to service providers of another Party treatment no less favourable than that it accords, in like circumstances, to its own service providers;

"2) The treatment provided by a Party under paragraph 1 means, with respect to a state or province treatment no less favourable than the most favourable treatment accorded, in like circumstance, by such state or province to service providers of the Party."

The Treaty then goes on to further enhance the rights of companies in cross-border bidding in goods and services. Countries are not allowed to require companies from outside their borders to set up any kind of an operation within the country under the "right of establishment" provision. No office can be required. No contribution needs to be made to the local economy. No return to a community is required, for the money made from that community. Carpet-bagging is elevated to a protected status. A U.S. or Mexican company can make its profits in Canada, and leave absolutely nothing behind.

The section on Crown Corporations specifically applies the new rules of procurement to them as well. Government agencies would no longer be permitted to use local purchasing as an economic development tool.

Any limitations that might initially exist on these provisions are, as we've seen, quite limited, temporary, and capable of moving only in the one direction: more rights for companies, not less.

h) Professional standards

Many public sector workers are members of various professional bodies, or are engaged in the regulation of professional standards. There is a "sleeping" provision in the NAFTA, which causes us real concern in relation to these standards.

Annex 1210 of the agreement calls for the development of mutually acceptable professional standards and criteria, and seeks common standards in the areas of conduct and ethics, professional development, and re-certification and scope of practice. The Annex asks the bodies responsible for certifying professionals to provide recommendations on mutual recognition.

There is a further requirement that provisions relating to the licensing and certification of "nationals of another Party" be "based on objective and transparent criteria, such as competence and the ability to provide a service... and does not constitute a restriction on the cross-border provision of a service." After two years there can be no citizenship or even residency requirement for certification of professionals.

This whole development is a tremendous infringement on provincial rights in Canada, provinces being the competent authority in the field of professional certifications. Certainly the three countries involved in NAFTA have different cultures with respect to such matters as education or health care or many other professions. There are also different philosophies and different histories, both of which might require differences in standards to prevail.

Is all of this to be swept aside in favour of the homogenization required by a borderless marketplace?

i) Health care

Canada has already seen a painful -- and expensive -- example of how NAFTA limits the authority of our national government, in the 1987 and 1993 amendments to our national drug patent legislation.

It's useful to provide a bit of background to understand this more fully. In the early 1960s, Canadian prescription drug prices were among the highest in the industrialized world. Concern over this untenable situation resulted in a number of studies and investigations that concluded that Canadians were paying too high a price and that patent protection resulted in monopoly pricing.

In response to this situation, the government of the day acted to break the monopoly pricing practices, by way of a 1969 amendment of the Patent Act providing for the compulsory licensing of pharmaceuticals.

The 1969 amendment was not, as our current government wants Canadians to believe, a mistake that made Canada a pariah in the international community. On the contrary, given monopoly pricing practices, the industry got off lightly given that patent protection could have been abolished altogether.

The compulsory licensing system prevailed until 1987, when our current federal government adopted Bill C-22. Contrary to what the government alleged at the time, that piece of legislation was closely tied to the FTA -- something the official U.S. government summary made clear, when it noted that Canada had made a specific commitment in the FTA negotiations to pass the bill.

Compulsory licensing of pharmaceutical products had served Canada well. It promoted health in a general well being of all Canadians, and there was no evidence at all that giving increased patent protection to brand name manufacturers would do anything to improve health care outcomes. Moreover, the system provided an opportunity for the development of a Canadian generic drug industry, and provided considerable savings to Canadian consumers and taxpayers.

Over the years brand name drug manufacturers also enjoyed profits from their Canadian operations that were the envy of most industries in Canada.

Nevertheless, earlier this year, in advance of the conclusion of NAFTA, the patent protection system was expanded even more through a new piece of legislation, Bill C-91. As a result of the extension of the trade provisions to Intellectual Property Rights, the Canadian government, through Bill C-91, extended patent protection for drug manufacturers from 10 to 20 years. It used to be that after 10 years generic drug manufacturers could produce generic drugs at huge savings, with a license fee to the original manufacturer. Extension of the ban on such generic drugs to 20 years, in anticipation of NAFTA, will cost Canadian consumers, employers, and provincial governments literally billions of dollars more.

In addition, the new environment mandated by Bill C-91 threatens the very viability of Canada's generic drug industry. At the same time, the legislation will further enhance the profitability of an industry which Fortune magazine has described as having "enjoyed the fattest profits in big business".³⁴

³⁴ Submission to the Standing Senate Committee on Banking, Trade and Commerce by the National Union of Public and General Employees, January 19, 1993.

1) Limits on regulation

Another concern is that NAFTA specifically limits the right of governments, including provincial governments, to set rules on areas such as health and safety, environmental protection, or the like.³⁵ While the concept of such laws and regulations is accepted as legitimate, the implementation of those laws and regulations is subject to challenge if it is argued that the laws go beyond protection to bring an unnecessary barrier to trade.

But further to that, governments even have to prove that their laws were the least trade restrictive way of achieving their objectives.

The least trade restrictive method may be least satisfactory in any number of other ways. For example, it might be more expensive, more cumbersome to administer, or have unwelcome side effects. No matter. The rights of companies to an unrestricted tri-national market take precedence.

IV. CONCLUSION

The North American Free Trade Agreement has been called a new economic constitution for the Americas; a bill of rights for corporations.

It contains several thousand pages of limits on the rights of governments to govern on behalf of their citizens.

The philosophy is that the free flow of trade is paramount. Anything that interferes with that free flow, even if citizens, local communities, and the signatory nations, benefit from that "interference", is to be curtailed.

The public sector is seen as a negative, an inherently limiting, non-conforming part of the system. The public sector is viewed as something that has to be shrunk, its power curtailed, its scope weakened, its independence reduced.

The existing Canada-U.S. Free Trade Agreement has had enormous consequences for Canada. There has been a huge job and revenue loss, a huge increase in costs for government programs, and a marked effect on the ability of Canada's governments to move forward with new or expanded programs that would benefit their constituents.

³⁵ NAFTA, Article 904.

NAFTA will make all the existing problems -- the job loss, the revenue loss, the limits on government authority, the limit on sovereignty -- that much worse.

NAFTA -- which, we repeat, builds on the provisions of a FTA that has already had such severe consequences for Canada -- is not a treaty between three countries. It is a deal signed by three countries on behalf of the companies that operate within their borders and in other countries. It is a deal that will operate at the expense of the citizens of those three countries.

In our view, NAFTA must therefore be rejected.

TABLE A
MANUFACTURING JOB LOSSES AND ANNUAL WAGE LOSSES, BY SECTOR
 (JOBS IN THOUSANDS, AND WAGE LOSSES IN MILLIONS OF DOLLARS)

SECTOR	JAN. 1989	JAN. 1992	LOSS (GAIN SHOWN IN BRACKETS)	ANNUAL WAGE LOSS (GAIN SHOWN IN BRACKETS)
FOOD AND BEVERAGE	224.10	191.50	-33	\$ 876.9
RUBBER AND PLASTICS	81.00	55.70	-25	\$ 721.5
CLOTHING	94.70	61.60	-33	\$ 631.8
TEXTILES	66.70	46.90	-20	\$ 482.6
WOOD INDUSTRIES	109.20	75.10	-34	\$1006.0
FURNITURE AND FIXTURES	63.10	41.40	-22	\$ 535.4
PULP AND PAPER	125.50	108.70	-17	\$ 681.8
PRINTING AND PUBLISHING	142.00	114.00	-28	\$ 829.9
PRIMARY METALS	99.40	80.80	-19	\$ 782.7
METAL FABRICATING	160.40	120.00	-40	\$1250.1
MACHINERY	100.40	77.20	-23	\$ 763.0
AIRCRAFT/AIRCRAFT PARTS	43.70	42.00	- 2	\$ 78.2
MOTOR VEHICLES AND PARTS	128.50	104.20	-24	\$1029.6
ELECTRICAL PRODUCTS	129.00	100.40	-29	\$1010.4
NON-METALLIC MINERAL	49.10	39.80	- 9	\$ 302.3
PETROLEUM AND COAL	19.40	22.30	(3)	(\$ 148.9)
CHEMICALS	97.50	87.40	-10	\$ 372.8
SMALLER SECTORS (TOTALS)	167.20	124.30	-43	\$1216.9
GRAND TOTAL	1900.9	1493.3	-408	\$12402.8

Sources: Statistics Canada, Employment, Earnings and Hours, January 1989 and January 1992; and Annual Estimates of Employment, Earnings and Hours (1983-1992)

Submission by the Canadian Labour Congress on the North American Free Trade Agreement to the Sub-Committee on International Trade of the Standing Committee on External Affairs and International Trade, January 26, 1993

TABLE B
ANNUAL WAGE LOSSES, BY PROVINCE
ASSOCIATED WITH FTA-RELATED JOB LOSSES
OCCURRING BETWEEN 1989 AND 1992

PROVINCE	WAGE LOSS, IN MILLIONS OF DOLLARS
NEWFOUNDLAND	\$ 187.7
PRINCE EDWARD ISLAND	(a)
NOVA SCOTIA	\$ 228.4
NEW BRUNSWICK	\$ 158.3
QUEBEC	\$3118.1
ONTARIO	\$7212.4
MANITOBA	\$ 327.9
SASKATCHEWAN	\$ 185.5
ALBERTA	\$ 364.1
BRITISH COLUMBIA	\$ 619.7
YUKON/NORTHWEST TERRITORIES	0.8
TOTAL FOR CANADA	\$12402.9

- (a) This province (Canada's smallest) has a very low population base and a small labour force. The effects of the FTA could therefore not be separated out from overall trends.

Sources: *Statistics Canada, Employment, Earnings and Hours, January 1989 and January 1992; and Annual Estimates of Employment, Earnings and Hours (1983-1992)*

Submission by the Canadian Labour Congress on the North American Free Trade Agreement to the Sub-Committee on International Trade of the Standing Committee on External Affairs and International Trade, January 26, 1993

TABLE C
DECREASED TAXATION REVENUES
FEDERAL, PROVINCIAL AND LOCAL LEVELS OF GOVERNMENT
RESULTING FROM FTA-RELATED JOB LOSSES
OCCURRING BETWEEN 1989 AND 1992

PROVINCE	INCREASED ANNUAL DEFICIT IN MILLIONS OF DOLLARS		
	Federal government	Provincial government	Local government
NEWFOUNDLAND	\$ 32	\$ 31	\$ 4
PRINCE EDWARD ISLAND	(a)	(a)	(a)
NOVA SCOTIA	\$ 53	\$ 35	\$ 7
NEW BRUNSWICK	\$ 33	\$ 30	\$ 3
QUEBEC	\$ 648	\$ 658	\$ 160
ONTARIO	\$ 1737	\$ 1189	\$ 371
MANITOBA	\$ 76	\$ 55	\$ 13
SASKATCHEWAN	\$ 42	\$ 40	\$ 14
ALBERTA	\$ 86	\$ 65	\$ 19
BRITISH COLUMBIA	\$ 151	\$ 134	\$ 13
TOTAL FOR CANADA	\$ 2858	\$ 2237	\$ 604

- (a) This province (Canada's smallest) has a very low population base and a small labour force. The effects of the FTA could therefore not be separated out from overall trends.

Sources: *Statistics Canada, Employment, Earnings and Hours, January 1989 and January 1992; and Annual Estimates of Employment, Earnings and Hours (1983-1992)*

Submission by the Canadian Labour Congress on the North American Free Trade Agreement to the Sub-Committee on International Trade of the Standing Committee on External Affairs and International Trade, January 28, 1993

Public Institutions Division, Statistics Canada: Public Finance Historical Data 1965/66 - 1991/92, Catalogue 68-512

Isabella Horry, Filip Palda, and Michael Walker: Tax Facts Eight, The Fraser Institute, 1992; and press release dated June 10, 1993

TABLE D
THE 1993 FEDERAL CHANGES
TO CANADA'S NATIONAL UNEMPLOYMENT INSURANCE PROGRAM:
THEIR IMPACT ON PROVINCIAL GOVERNMENTS' FINANCIAL POSITIONS

PROVINCE	Increase in social assistance and welfare costs, in millions of dollars	Decrease in provincial tax revenues, in millions of dollars	Total increase in annual provincial deficit, in millions of dollars
NEWFOUNDLAND	\$ 16.5	\$ 3.2	\$ 19.7
PRINCE EDWARD ISLAND	\$ 5.3	\$ 0.8	\$ 6.1
NOVA SCOTIA	\$ 27.5	\$ 4.8	\$ 32.3
NEW BRUNSWICK	\$ 15.6	\$ 3.5	\$ 19.1
QUEBEC	\$ 202.5	\$ 39.4	\$ 241.9
ONTARIO	\$ 473.0	\$ 61.2	\$ 534.2
MANITOBA	\$ 35.0	\$ 6.2	\$ 41.2
SASKATCHEWAN	\$ 32.5	\$ 5.5	\$ 38.0
ALBERTA	\$ 92.0	\$ 15.7	\$ 107.7
BRITISH COLUMBIA	\$ 117.5	\$ 19.7	\$ 137.2
TOTAL FOR CANADA	\$ 1,017.4	\$ 160.0	\$1,177.4

Sources:

Presentation to the House of Commons Legislative Committee on Bill C-113, An Act to Provide for Government Expenditure Restraint by the Canadian Labour Congress, March 11, 1993

Public Institutions Division, Statistics Canada: Public Finance Historical Data 1965/66 - 1991/92, Catalogue 68-512

Public Service Alliance of Canada/Canada Employment and Immigration Union, "For a Just Cause: A UI Handbook Produced by Workers for Workers", 1993

Mr. CONYERS. Well, it is a pleasure to listen to you. We have been rejoined by Carolyn Maloney of New York, and Steve Horn of California.

I thank you very much, both of you.

I have a few questions that if you will just note them, they are simplistic in nature. The ones you choose to respond to, do, and the ones you don't, we won't hear anything about them.

The problem of illegal drugs and abuse of drugs in this country probably ends up as one of the top concerns among American citizens in the polls taken, and I would like to invite any concerns that you may have that this agreement may indirectly complicate that problem in the United States or with the law enforcement agencies that are charged with investigating and prosecuting those that are involved in this problem.

In Canada and in Mexico, what do you perceive to be the level of concern among the citizenry about this North American Free Trade Agreement?

What conclusions can we come to about the fact that the world economy is generally stagnating, in some places in decline, and how might this be affected by NAFTA?

And although I suppose we are not supposed to think about it, what impact does this have on the collective bargaining movement, the union movements in the countries that would be parties to such an agreement that is under examination?

Is there an anachronism between this notion of dividing the world into competing economic regions and the whole notion that we are now in a global village in which high technology, increased communications has all made us more independent and the planet itself a smaller place for us to exist, thereby being more affected now by events and activities that go on in places outside of our own particular borders?

I would like each of you to alternate in a rather brief conversation about these concerns that have struck me as a result of your testimony today.

Ms. CHAVEZ-THOMPSON. The only point I would like to make is in regards to the collective bargaining process. I think at this point in time we are looking at give-backs. We are talking about cutting benefits that have already been negotiated. The layoffs, as I mentioned, and I think collective bargaining agreements, to some extent, would almost be in the situation of null and void given that they are based on negotiations for wages, negotiations for due process for the employees.

They don't have collective bargaining in Texas. It is a right-to-work State, and public employees don't have the right of collective bargaining in Texas. But my familiarity would be that the collective bargaining process would not be helped at all as far as public employees are concerned.

Mr. BROWN. Well, sir, let me try and give at least a brief stab at a number of your questions.

The illegal drugs one is one that I am very unfamiliar with. My drugs of choice are all legal. But I do suggest that if the border is open to everything but illegal substances, that you are going to have a lot more illegal substances coming through just because the

border is otherwise porous. That seems to me to be fairly self-evident. Beyond that I am not competent.

In Canada, the level of concern about NAFTA is that the majority of people, clear majority, somewhere in the order of 60 to 67 percent, depending on which poll you read, are absolutely opposed to NAFTA being implemented.

Mr. CONYERS. Was the change of your leadership in Canada impacted in some way by these international trade agreements?

Mr. BROWN. Yes, no question about that. I think even in the view of the conservative party that is still in government, Brian Mulroney, the former Prime Minister had no choice to resign if he didn't want to get buried in an avalanche. He was going to lose his seat and probably most of the seats of the governing party, so he had to get out of the way.

It was because the people have seen the devastation caused by the original free trade agreement to our country, they don't like the NAFTA, and incidentally, don't like a number of other economic policies that he put into place.

We have still got, I should say, a clear majority. I think the last figure, and I am not absolutely sure, but it is in the area of 55 percent of the population of Canada still doesn't like the original free trade agreement, still thinks it was a bad economic move for our government.

Mr. CONYERS. The United States-Canada Treaty?

Mr. BROWN. Yes.

Mr. CONYERS. Which is still in effect.

Mr. BROWN. Yes, very much so, and still affecting our governments every day. So we have got the majority of our population that doesn't like the original deal. A larger majority doesn't like NAFTA and doesn't want our government to get involved in it. And one of the reasons for Mulroney having to resign was clearly that, the people's response to it.

We get different views about the position of the Mexican people on NAFTA, and I don't really want to even stab at that one because it would be unfair.

The world economy is in relatively bad shape. Whether or not this is a sensible time to be entering into trade agreements that give less power to government to govern and more power to private companies to move wherever they want, and do whatever they want, is, I think, a very important question.

It is of some interest to me that those countries that have more of a role by their governments in directing the affairs of their economies are those countries that are doing better now, and those governments where they have moved to—opted for the pure sort of "free market" philosophy, are those countries that are doing worse. And it seems to me that we might draw some lessons out of that the same way we were forced to do in the original dirty thirties when we had to find out that government programs and intervention in the economy was not a bad thing. It was in fact required.

It was very clear to me that what we have had in the last decade is the great experiment that has failed because we had Margaret Thatcher. We had Mr. Reagan and Mr. Bush. We had policies of our governments in Canada all heading in the same philosophical direction. This was that the marketplace should rule, governments

should get out of the market, should get out of governing the economy. And what they have done is create basket cases in most of the economies we are dealing with. We are all in worse shape than we were before.

And those economies—I remember reading about a month ago that the Government of Japan was intervening by some \$17 billion or something into their economy because their unemployment rate got to over 2 percent and they found it necessary to have a critical reaction to that.

Well, our—if we ever hit 2 percent, all of our folks would think they had died and gone to heaven, because we haven't seen that for decades.

What is the impact on collective bargaining? I am able, I am afraid, to be completely nontheoretical about that and give you practical examples.

Collective bargaining in our country has been affected adversely by the original trade agreement. We have had unions that have been forced to give concessions on the basis that if they didn't, the plant was going to close and move to a State, one of the States.

We have had public sector unions—

Mr. CONYERS. The United States?

Mr. BROWN. One of the States of the United States, yes, were the specific threats that said, we are going to move to this place, and not surprisingly, most of those threats were based on right-to-work States. That would be the end location.

We have had companies that have pulled up and just simply left in the middle of the night because they were in bargaining disputes with their employees. They simply put the plant in a truck and moved it to the United States, one of the States. We have had all kinds of impact in the private sector and in the public sector, and as a result of the huge revenue impact of the original trade agreement, we have governments now that are running roughshod over the rights of their public employees to bargain.

We have collective agreements rolled back by legislation. We have had collective agreements frozen by legislation.

We could give you chapter and verse of how much worse collective bargaining is in our country as a direct result of the original trade agreement.

And the final question, it would be difficult to answer satisfactorily in less than a long time. But it seems to me that the argument that the world is turning into an economic global village is only partially right. There is a certain element of that, true. You can now fly around the world. You couldn't before and so on. The world is getting smaller in that metaphysical sense, but those countries that are doing the best now are those countries where governments are meeting their obligation to their citizens to govern on their behalf. It doesn't mean that you have to be protectionist. It doesn't mean that you have to sort of keep everything out at the border. It doesn't mean that you have to have absolute rules that are restrictive. It does mean that you have to say that the rights of your citizens come first, and the rights of your companies have to be governed by the rights of your citizens, and what our governments—our three governments are now giving away is precisely that right.

They are giving away the right to have any control over the companies that do business in our three countries, and the global village is a—it is a nonsequitur. It is an answer that doesn't apply to the problem. The global village is not met by countries giving up the right to govern. What we have got is 2,000 pages of rules that says, here is what governments in our three countries can no longer do; 2,000 pages that go through you can't do this, you can't do that, you can't do the other thing. None of that in there is what they can do, because they could do that before. They don't need a trade agreement to govern, so it is all restrictions, 2,000 pages of it.

Well, that isn't helping any of our citizens to deal with the global impact.

Mr. CONYERS. Thank you so much. Steve.

Mr. HORN. Thank you, Mr. Chairman. I have two questions, one for each of you. Vice President Chavez-Thompson, you come from one of the major unions in this country with probably more clout, if you will, than a whole group of Members of Congress put together, so my concern is, since I think you raised very legitimate concerns about the treaty, as I think a number of groups do, to what extent have you been able to communicate those concerns to the U.S. Trade Representative, other representatives of the administration, and to what extent have your questions been answered and has that answer—one, have they been answered? Two, has that answer satisfied you?

Ms. CHAVEZ-THOMPSON. Mr. Chairman, let me point out to you that in reaching out to the AFSCME leadership, oftentimes we have been told we hurt for our brothers and sisters of the IUE, or the UFCW, or steelworkers, or UAW who may lose jobs, but right now we are—we have got other problems that we have to deal with, so it is—we will send somebody to the meeting and we will be there to support the rally against the NAFTA, but a lot of our leadership has not fully become cognizant of the effects of NAFTA on public employment.

The job that I have, as well as other people within our international union, has been to communicate to the leadership of AFSCME, the international executive board that will be addressing this issue, hopefully in September, as to how we are going to be affected, and then we will begin to push for meetings with the U.S. Trade Representative, with the administration as to how we feel and what we hope we will do to make the Congress realize this is not just a private sector problem, but a public sector employee problem that will have to be addressed.

I cannot tell you everything that has been done. Our staff certainly has been working through the legislation department on addressing these concerns, but I can't tell you that everywhere within this big international union this has been a priority with us. It will be as far as I am concerned from this day forward.

Mr. HORN. Well, it sounds as though we have not honed the problems down precisely and sought an answer and had a specific response is the way I am reading that answer, and that is fine. It is just that I have to believe if you have got a problem with some proposed action, you ought to deal with it piece by piece, and let me give you an example. Unfortunately, it doesn't apply to the situ-

ation you have testified on, although it might relate a little bit to a question I am going to ask Mr. Brown.

I hear, when I meet with groups in the Teamsters Union and others in Southern California, the following example: The worry that if NAFTA is approved between the United States and Mexico, you will have truck drivers licensed in Mexico come across the border, deliver a load to the port of Long Beach or the port of Los Angeles, both of which are in my congressional district, and instead of returning to Mexico, they will then deliver loads all over the United States with that license.

That is a legitimate concern, I think, and I have discussed this with Mr. Kantor and suggested to him he ought to get an action desk where these things can be dealt with. He is pleading budgetary problems and I am sorry I wasn't here this morning when I could ask the Deputy U.S. Trade Representative that problem. But these are things we ought to know; is it true or isn't it true.

Does State licensure count for anything in this country or doesn't it once we have approved NAFTA. So that is one concern. That is the kind of example I am thinking, which leads me, Mr. Brown, to the question I have for you.

You mentioned the professional standards provision in the Canadian-United States agreement. That is a very legitimate concern. Let me ask you if the following is an analogy. We are talking about San Diego, CA, or Detroit. You obviously are in relation to Detroit. As you interpret that agreement, does that mean doctors licensed by the State of Michigan, nurses licensed by the State of Michigan could easily cross the border and work in Canada and vice versa, doctors and nurses in Toronto or whatever the border cities are to Michigan and the other Northern tier States as far as Maine could come across the border freely? And is that a concern as you interpret that provision?

MR. BROWN. The answer is, yes, but on a staged-in basis. What we will find is that within about 3 years the answer will be precisely, yes. The day that NAFTA is signed by our three countries, if God forbid that should come to pass, we won't have professionals able to cross the border the next morning. But within 2 or 3 years, we will. The professional standards will be harmonized and the right of residency requirements, the right of national citizenship requirements will have to be eliminated on the terms of the agreement.

So on a phased-in basis, yes, we will be able—we will see that happen and it is more of a concern than just—and I don't mean to minimize the concern, but it is more than a concern just doctors being able to move back and forth across the border and so on. What we are talking about is, for example, education.

Now, presumably the United States for its States at least have developed their educational systems the way they want them developed. They have developed them according to certain philosophies and histories as our provinces have. We want to keep that, at least our citizens do, and we don't necessarily think that we want to have Mexican or American teachers be able to move across the border and teach our kids according to a standard that has been harmonized. And that is no disrespect to your educational system or the Mexican one. It is simply a reflection of our own view of how

we value the systems that we have developed, and our ability to do that will be seriously jeopardized by this NAFTA thing.

Could I—

Mr. HORN. Before you leave that, obviously the question comes on the word "harmonize" as to what is the process by which this would be harmonized under the agreement. For example, California and most of our States, all of our States, handle licensure for professional fields such as doctors, nurses, technicians of one sort or another in the health care area and that is strictly a State matter. So do you foresee, then, the various provinces within Canada doing that or do you see—and does it happen that way in Canada where, say, one province licenses doctors a different way than the other, or is it a national standard in Canada?

Mr. BROWN. No, it is exactly the same system you have.

Mr. HORN. So we are talking about either province, State relationships have to be hammered out in that agreement or you are saying it is going to gravitate to a central government agreement because in essence that is the negotiation process between the countries?

Mr. BROWN. In effect, what you are raising is an unanswerable, an unanswered question on the face of the agreement. What the agreement says is very precise, that although this is an agreement between Federal bodies, that the provincial governments, and your State governments, are to be affected. Notwithstanding the comments we heard this morning from witnesses, the face of the agreement says that, and it says that in an area where our Federal Governments have agreed, even though they have no jurisdiction, that certain things will come to pass.

So one can only assume, as you do, two possible outcomes. Either that there will be a violation of the trade agreement—if your State of California doesn't get together with our VC and however it works in Mexico, that that will be a violation of the trade agreement if they don't do that, or that the Federal Governments in our three countries will step in to enforce it and make sure it happens.

Neither of those outcomes is specified in the agreement. But the agreement is absolutely clear that the governing agencies in the three countries, which are not the jurisdiction of the governments that signed the document, will get together, will harmonize the standards, will eliminate residency requirements, will eliminate nationality requirements. That much is very clear. How they expect it to happen is not clear.

Mr. HORN. So conceivably, this could, by changing standards, harmonizing might mean for some, a "lowering" of standards. That is your example of the public school system, and that would mean that perhaps people less educated in America, Mexico, or Canada could move across whatever relevant border provided a greater opportunity for job upward mobility despite the level of their education? And I take it that is part of the concern you are expressing.

Mr. BROWN. Quite frankly the concern isn't so much about more as it is about less.

Mr. HORN. What I am getting at in this is you fear the possibility of an American influx in hard-to-get jobs in your country once NAFTA is harmonized?

Mr. BROWN. Well, that is only one aspect of our concern. In fact, it is probably the——

Mr. HORN. I understand. I have to deal with it piece by piece. I understand that, but that is one of your legitimate concerns, is it not?

Mr. BROWN. It is one of the aspects of our concern about that professional standard. But let me just for a minute raise a much more profound, I think, concern, which is not to deal with the question of lesser standards, because that may be in the eye of the beholder what is less, but that they are different, and our standards are different than yours. Yours may be higher for all I know. Pick a field. We have 700 different professional organizations that have licensing standards. I don't care particularly whether they are higher or lower for the sake of this argument, but I do care that they are different and that our jurisdictions have decided that there will be a certain set of standards to accommodate our needs the way we want it to as a country or as a province. That is what I fear being not eroded, but being taken away, and whether or not yours are higher or lower is of some interest. If you were demonstrably lower, it would be of some concern.

But whether they are higher or lower, the fact that they are in a different place is of more interest to me because we don't want necessarily to have your education system, however good it is, you show me your best State and I don't necessarily want that system, thanks very much, because we have developed one that by and large has worked for our purposes and I am sure you feel the same way.

Why should all of those sort of be smooshed together under a trade agreement?

Mr. HORN. My last point, and then we have to leave, is in a Federal system, which is both what we have and what you have, what you have in your country is rational but some of the processes can't do it for all. Our interstate compacts where States willingly have a choice of coming together, trying to negotiate a sensible policy among themselves without the Federal Government telling them what to do, and then if they sign up and it is agreed, that number of States or those States abide by that compact. Not everybody has to agree, just those that agree. That is the way they handle that particular problem. Is that not a possible way to work? We do that now. It is simply that now we do it with Canada.

Mr. BROWN. Sir, the United States, the last time I checked, was approximately 250 million people and we are approximately 25 and one of our Prime Ministers likened that to a mouse sleeping with the elephant. Every time the elephant twitches, we feel it. It may be theoretically true that our province of Newfoundland, for example, with 150,000 people will be able to say, we are going to opt out of this system voluntarily. We are not going to have those standards.

But I suggest to you that the realistic alternative for them is not to say we are going to opt out, suffer all of the slings and arrows that will result because we are violating the trade agreement, I don't think so, sir. I think what will happen is that there will be enormous pressure on us, enormous pressure on some of your

smaller States, however much they value their own systems, to opt in, to play the game.

When you have got that kind of a market out there, all of the pressure from that being directed toward you, your ability, your Ohios or your Rhode Islands or your smaller States, however many there are, are going to find it as difficult as our Prince Edward Islands do with 120,000 people in its population. PEI is going to tell the rest of North America to take a hike on some standards? Possible, I grant you.

Mr. HORN. Thank you. Thank you, Mr. Chairman.

Mr. CONYERS. Well, thank you very much, Steve Horn. Mrs. Carolyn Maloney.

Mrs. MALONEY. Thank you, Mr. Chairman, and thank you for holding this hearing on really a very underexplored area of NAFTA, the government procurement area, and I think it has very much taken a back seat to many of the other problems that have been focused on. In this report on part 4 on government procurement, it shows a tremendous disparity or unevenness in treatment of the governments. I cite that the threshold for the majority of contracts for the United States would be at \$50,000, yet for Mexico, it would be at \$250,000. Therefore, the Mexican and Canadian Governments could bid on our contracts at a much lower threshold. Whereas 100 percent of our market is open to competition, only 50 percent of Mexico's and 80 or 90 percent of Canada's. Likewise the Federal procurement dollars are much larger for the United States at \$65 billion. Mexico is \$15 billion and Canada is \$8 billion. At year one we are opened to competition whereas we wait a long time, I think it is 10 years, if I remember correctly, before their markets open.

So I feel very strongly, Mr. Chairman, that your hearing today has shown that the government procurement area is clearly a very underexplored area where the ramifications can be extremely far-reaching. Fast track has been approved, I did not vote for it. I thought we should reserve our right to comment on the negotiations and that we as a body can't open it, yet our committee has direct oversight on procurement and I would like to recommend, Mr. Chairman, that we write the administration and ask them to renegotiate and open the area of government procurement.

These amounts are devastating. They can bid on our contracts with a \$50,000 threshold and we can't bid on theirs until \$250,000? I could clearly see maybe \$65 billion rolling out of the economy in just our Federal Government contracting process, and I feel that that should be relooked at and I would like the panel to comment on that.

Mr. BROWN. I don't know for sure about your country, but I do know that in Canada, government procurement has been a generally powerful tool for national development.

We have used government purchases, government spending, government buying of services and goods, to build our regional economies, to equalize our economic development, to move into depressed areas.

All of those tools have been of tremendous use to our governments, provincial and Federal Governments. They have used the

power of the government dollar to do things that they have wanted to do in their economy, and that is gone.

If NAFTA is put in place, sort of, if you are building a spaceship, you can divide the components into \$50,000 chunks and get around it. But your ability of State and Federal Government to use those kinds of purchasing procurement provisions to build your economy the way you want would be as much as our ability to build our economy the way we want.

And you are right, our access is to billions of dollars more than your access is.

Mrs. MALONEY. And I don't understand why there is such a tremendous disparity. At the very least, I think we should request a GAO report on the disparities in this between the various countries. And I, for one, don't want to be underwriting the economy of another country. They would be able to purchase our goods competitively with a work force, according to testimony that was earlier, of \$50 a week to make the various supplies that we use in government.

And I could see this being a \$65 billion possible loss to the economy of the United States of America.

Ms. CHAVEZ-THOMPSON. Mrs. Maloney, just as an observation, apparently the Canadian Government and the Mexican Government had better negotiators than we did regarding this issue.

I do make mention in the longer version of my presented testimony on page 5 regarding the comments that you have made. Second to the last paragraph is our observation on this matter.

Mrs. MALONEY. Thank you very much.

Mr. CONYERS. I could say to the gentlelady from New York, that her recommendation that we go back into this part of the agreement, the proposed agreement, should come from our committee. And I think that there could be a very important understanding and maybe leading to a reevaluation of some of the terms and limits that have been put on government procurement. Because there is a serious disjunction between the abilities of the parties, and it is in an inverse way.

Curiously, it doesn't allow us, being the larger Nation, to participate in a larger extent. In inverse, it requires that we participate less than normally.

And so, I think that I would like to meet with you to fashion a vehicle to reenter this question.

Mrs. MALONEY. Thank you, Mr. Chairman.

Mr. CONYERS. I would like now to call on Al McCandless of California.

Mr. MCCANDLESS. Thank you, Mr. Chairman. I am sorry that I had to leave. I had a longstanding luncheon in which I had to be the program. It becomes kind of important if you are the one that is going to do the talking. I got back as quickly as I could.

I will share with you, Mr. Brown, one thought if I may. In your answer to Mr. Horn's question, I have read the agreement and have been to a number of seminars with Ms. Hills and have read a number of summaries by various people, both for and against. And in none of these exposures to the agreement did I come away with the conclusion that the licensing process of professionals would be given up by any of the States.

Or to put it another way, using the State of California as an example, if you are in the medical field and you move to California from another State, you must go through a process successfully in order to be certified to practice in the State, whether it be an x-ray technician or a brain surgeon.

That same rule applies to an Asian doctor who might come from some Asian area, East Indian—and all of these people I use as examples because they are a mix of some of the people who have come to California for the purpose of practicing medicine.

So I don't see a change here in the process, because of what has been taking place over the years with respect to foreign-born, foreign-educated medical people, because we joined an agreement with Mexico. And if I understood you correctly, my interpretation of this is wrong. The various sections of the agreement that deal with professional licensing are permissive. And they use the word "may." "The State of such-and-such 'may' in conjunction with another state." "May." And I felt somewhat misled by what it is that you told us a little earlier about the fact that these things would happen.

Can you expand on that a little bit?

Mr. BROWN. Well, sir, if you will recall, I also said that there are some unanswered questions in the agreement as to how these things would take place. And what appeared to have been signed by the Federal Governments infringed on an area that wasn't within their jurisdiction.

So I didn't say that this would happen. I said that there was an unanswered question with respect to what is to happen. But one of the things that I have always been told is that if you legislate or write something into an agreement, it is intended to have an effect, that if you didn't intend to have an effect, you don't touch it, the old variation of "if it ain't broke, don't fix it" theory.

You intend your legislation or agreement to have an impact. If you don't intend your legislation or agreement to have an impact, then you don't do it. Clearly the impact of the wording with professional standards that the professional standards bodies of the countries will be expected—and in some cases the words are "may" and in some cases the words are "shall"—will be expected to get together to harmonize their professional standards.

And if you will remember there is a section that says when they do this, they have to end up with—and this is a "shall"—standards that are transparent, I think is the word from the agreement, if I recall, that basically do not have any sort of nationality or—

Mr. MCCANDLESS. Hidden clauses, footnotes, or something that is not part of the language in the agreement.

Mr. BROWN. Exactly.

And the other thing that it says is that there shall be an elimination of the nationality requirements within 2 years of the signing of the agreement. That is a "shall."

It is clear to me that there is an intention that this happen.

Mr. MCCANDLESS. When we talk about nationality requirements, there is nothing that is going to change the U.S. Immigration and Naturalization Service codes and laws as they currently exist unless the Congress changes them. A treaty is not going to change them. You still have to process a visa or whatever the vehicle may

be to come to the United States as a student, or to come to the United States as a businessman, or something like this.

When we talk about nationalization of constituency, our rules and your rules do not change from what they are now as a result of the trade agreement.

Mr. BROWN. Sir, what that does, though, is it says that we may be able to prevent the damage done by the trade agreement by access to some other trade.

But the trade agreement, if you will agree with me, specifically does say that. The requirement for nationality, for national standards as part of a professional conformity, have to be done away with under the trade agreement. That is what it says. And, granted, we may be able to use other laws to mitigate that.

Mr. McCANDLESS. I am sorry that I wasn't here for the total of your testimony. Thank you very much for your thoughts, although we disagree.

Mr. BROWN. I suspected that actually.

Mr. CONYERS. Well, we are very grateful to you, Mr. Treasurer. Your comments here have been very important to us, even, among those who agree or those who may not entirely agree. And we are very privileged to have had you before the committee.

Mr. BROWN. Well, thank you very much for having me.

Mr. CONYERS. I would like, now, to invite Dr. Max Sawicky and Dr. William Niskanen to join us here.

If you would, gentlemen, take the witness oath that you have agreed to as a condition of coming before the committee.

Stand and raise your right hands.

[Witnesses sworn.]

Mr. CONYERS. I thank you very much. We have your prepared statements. You have been beneficiaries of most of the testimony that has preceded you. So if you would include any comments that you would care to make about what has gone on here, we would be welcomed to receive that as well.

Have you decided who should lead this panel?

Dr. SAWICKY. I thought you decided, and it was going to be me. And that was fine.

Mr. CONYERS. This is a highly Democratic committee that you are appearing before this afternoon.

STATEMENT OF MAX SAWICKY, Ph.D., ECONOMIST, ECONOMIC POLICY INSTITUTE

Dr. SAWICKY. I appreciate it. I appreciate being invited. It is also a pleasure to be here with Bill Niskanen.

My job is a little bit easier than I thought it would be because a number of statements by supporters of this agreement cast grave doubts upon its general wisdom; without trying to steal Dr. Niskanen's thunder or spill too many beans, in his statement he claims that contrary to many of the proponents or opponents of the treaty, we should not expect net new jobs arising from this agreement.

Dr. Reischauer of the Congressional Budget Office, for whom I have the highest respect, says the net gains from this agreement are, "very small."

Now, I would translate "very small" into so small that the variation or uncertainty associated with the process of estimating that very small number dwarfs the actual number, which means that not only can we not, according to this approach, count on significant benefits, we are not even sure about the direction of benefits in net terms. They could be negative.

On top of that, I would cite the statement made at the very end of Dr. Reischauer's testimony where he points out that there will be gains and losses to different parties as a result of this agreement, and that an economist cannot tell you whether Smith's loss justifies the gains of Jones and 20 others.

More specifically, he said the gains will be diffuse and thinly spread over many parties, whereas the losses will be concentrated among relatively few parties.

Now, from the standpoint of well being, the economist can't make a judgment about the appropriateness of that result; but, of course, you as legislators have that very responsibility as you are well aware.

One thing that economists can say about that kind of outcome is that when gains are spread very thinly for many people, and losses are concentrated on relatively few people, the hurt from the losses outweighs the pleasure of the gains.

I compliment everybody on the committee for their endurance—particularly the chairman, who has stuck with us from almost the beginning. Let me now walk through my statement and focus on the public sector effects.

I am not going to try to say much more about the economic effects of this treaty. It is not something that I've done much work in. The Economic Policy Institute has issued volumes and volumes of material on this which I commend to you.

I expect that under NAFTA there will be significant churning in employment. I personally am skeptical of net gains from new jobs they are better than the old jobs that are destroyed. But all that is really necessary for my analysis is that you have this significant churning, which means displacement of workers and significant costs of adjustment in that process.

I can't resist pointing out that a lot of studies cited to show job gains are completely ill-equipped to deal with the displacement or the unemployment or the relocation of capital from the United States and Canada to Mexico and the jobs that go with them.

Typically, a lot of the economic analyses that make those predictions have by construction, as one of their assumptions, that there can be no unemployment. There will be no unemployment because those seeking jobs will eventually lower their wages to whatever is necessary to clear the market.

So these models are particularly ill-equipped to deal with a different question, which is the extent of unemployment and the associated adjustment costs. They are useful for other purposes. But their misuse in this debate doesn't inspire confidence.

I am not an attorney, but, regarding statements of the administration and other supporters of the treaty, neither does it inspire confidence about the legal consequences of this treaty to hear the breathless results of misused resources models as part of the case made for the treaty.

Let me, as I promised, go very quickly through my statement.

Assuming there is significant churning, given the size of the agreement, in employment and displacement, I expect this to mean serious harm for the public sector.

First of all, as others have admitted—including supporters of the treaty—some of the harmful effects would be on low-skilled workers. There is a longstanding, direct correlation between the well-being of those workers and trends in unemployment, welfare receipt, and other social costs.

This impact on low-skilled workers portends direct increased costs to the public sector in terms of spending on welfare, unemployment compensation, and Medicaid, among other things.

One should be cautious when you hear the term "low-skilled workers" and take care to look beneath the surface and find out exactly what people are referring to. There was one study that said there would be some losses for low-skilled workers on average; it turned out that the description of low-skilled from that study—no detraction from the authors—was high school degree or less, or 70 percent of the work force. So when we say "low-skilled," we ought to make sure we understand the group that is being referred to.

Now the effects of NAFTA—the results of restructuring and churning in the work force—true enough are not large compared to the long-term stagnation of manufacturing in the United States, or the slide in the real hourly wage.

That doesn't mean that the agreement is defensible, simply because it is only slightly disagreeable relative to the horrible extraneous things that have been going on.

The relocation by business firms causes an extra burden on the public sector, which is obliged to compete for relatively higher income taxpayers and business firms, and in the process run itself into the ground through what is generally called intergovernmental fiscal competition.

Unlike my friend Dr. Niskanen, I don't regard that as a positive and fruitful process. I regard it as a drag on local governments. It is popularly known as a race to the bottom. Governments lower tax rates and offer tax abatements to firms in order to get them to come in or stay in. Typically the gains end up not being worth what the costs. In some cases, as we heard here, firms violate agreements and leave when it suits them.

The disparities in tax bases that result from fiscal competition weaken local and State governments. Disparities cause business firms and households to make decisions on where to locate based on who else lives there—in terms of their ability to pay taxes—rather than on the intrinsic economic merits of the location.

The traditional remedy for fiscal disparities general fiscal assistance—was eliminated under the Reagan administration; and its restoration, which I support, is confounded by the current, wrong-headed obsession with deficit reduction.

The likelihood of an effective safety net being constructed—we obviously don't have one now for any victims of this process is, in my view, extremely low.

Administration commitments aside—they may be perfectly sincere in their desire and their commitment to aid the victims of this process—the more important question is whether we could expect

and to be forthcoming in the current fiscal environment. We heard here that because of shortages of funds, the Special Trade Representative can't even provide certain services in terms of providing information that would allow you to make an intelligent decision. And we are supposed to believe that down the line, if we had this agreement, there would be effective provision of services to people genuinely harmed as a result of this process.

There is one other subject I would like to address: The effects of the agreement on minorities.

A lot of this has to do with legal matters which I am not equipped to go into. I don't think we can determine by debate the outcome of legal actions that would arise including issues of the sovereignty of State and local governments, and all related issues about what a government is allowed to do.

One such item is minority set-asides. Although the agreement may not mention them, that does not mean that legal challenges, as a result of the changed environment wrought by the agreement, to things like minority set-asides or affirmative action will be less likely to succeed. They might be more likely.

The administration spokesman was fairly disingenuous on the issue of local governments being able to buy locally as opposed to not having that choice. Or the issue of their ability to redress discrimination in private labor markets through affirmative action. Whether or not such enterprises will be treated kindly by NAFTA is very much an open question.

Aside from whether or not any of those things are appropriate policy the overriding issue is whether it is right that an international treaty, more or less rammed through in relatively pristine form is an appropriate vehicle to restrict State and local governments in the United States, Canada, and Mexico.

From the standpoint of federalism, it is simply wrong. It might be legal, but it would be wrong. This is the more overriding factor, not whether it is a good economic idea for a local government to buy local or not. I would urge you to consider it.

The National Government has run Federal policies over the last 15 years which have harmed the State and local sector significantly. There have been cuts in grants in aid to governments—not counting Medicaid, which should be considered separately for reasons I could go into if you are curious—we have also seen a proliferation of mandates without accompanying funds from the Federal Government; and changes in the tax code, which, at least in terms of indifference or oversight, harm the ability of State and local governments to raise their own money.

Insofar as this agreement makes the State and local sector less fiscally viable, it worsens an already traumatic condition in the State and local sector.

Thank you very much.

Mr. CONYERS. I appreciate your comments.

[The prepared statement of Dr. Sawicky follows:]

**FREE TRADE,
UNFREE PEOPLE**

The North American Free Trade Agreement and
The U.S. Public Sector

SUBMITTED TO THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT OPERATIONS,
SUBCOMMITTEE ON LEGISLATION AND
NATIONAL SECURITY
JULY 27, 1993

MAX B. SAWICKY
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Thank you for the opportunity to appear before you today. My name is Max B. Sawicky. I am an economist at the Economic Policy Institute in Washington, D.C. I have been invited to address the question of how Federal, state, and local governments would fare under the pending North American Free Trade Agreement ("NAFTA"). The Economic Policy Institute has issued numerous studies on the economic effects of the proposed agreement. I will not dwell on these matters but instead focus on ramifications for the public sector.

What is the NAFTA?

There is nothing objectionable *per se* about a wider variety of consumer goods becoming available to people everywhere in North America. As is well-known, trade of this type between the U.S. and Mexico is now quite brisk and requires no new deal to be sustained. But NAFTA is not a trade agreement. Rather, it is primarily a means by which U.S. manufacturing jobs can be more easily relocated to Mexico for the sake of drastically-reduced standards in employment and environmental protection. Secondly, it is a means by which Federal, state, and local governments in the U.S. are disenfranchised of the legal authority to govern their own economic development. NAFTA effects these objectives by a number of devices:

- It opens up Mexican business assets to purchase by U.S. investors with funds that might have otherwise financed plant and equipment in the U.S. Although NAFTA does facilitate U.S. exports to Mexico, which supports U.S. jobs, with the same hand it facilitates imports from Mexico, which has the opposite effect. If net exports to Mexico are not enhanced, no job gain on the U.S. side can be purported. Moreover, insofar as our exports are capital goods which are the basis for new jobs in Mexico and our imports are consumer goods, we exacerbate the job outflow. We should not expect the Mexican economy to absorb much in the way of U.S. consumer good exports because it is small relative to the U.S. -- about 4% -- and since it bears the burden of a substantial foreign debt (Faux and Lee, 1992).

- While little in the way of tariffs restricts U.S.-Mexico trade presently, NAFTA removes other barriers, particularly the Multi-Fiber Arrangement which limits U.S. imports of textiles and apparel. (Faux and Lee, 1992)
- NAFTA also takes steps to upgrade copyright and intellectual property law in Mexico, the better to protect U.S. assets from piracy. While such a policy is unexceptionable, it cannot be ignored that meaningful parallel protection for workers and their communities is utterly absent from the agreement.

One way to shed light on the thesis that old jobs are replaced by new and better jobs is to examine the fate of displaced workers in general. Such an investigation shows that displaced workers suffer extended periods of unemployment, that they may never re-enter the labor force, and that if they do they usually earn significantly lower pay. In this light, NAFTA is strictly a down-escalator for U.S. manufacturing workers. (Podgursky, 1991)

I conclude that free trade as embodied in NAFTA aims to promote *the free trade in human beings, specifically their labor, their working conditions, and the quality of life in their communities, by external parties -- namely, mobile business firms.*

The Public Sector Under the New Order

What does the economy in prospect under the regime of so-called free trade foretell for the public sector? The short answer is: the trials and tribulations in the 1980's will be extended under the agreement because trends which have proved most harmful to the operations of an effective, efficient public sector would be sustained. More generally, whatever you think the public sector ought to be doing in the affirmative realm will be severely hampered by the crippling of its ability to govern business activity in the interests of a democratic polity.

The 1980's trend in higher levels of unemployment and larger welfare rolls can only be increased by the job displacement expected from NAFTA, even

under the the assumption that NAFTA is "successful." Much of these costs, in the form of Medicaid and AFDC, are borne by state governments who have always been ill-suited to shoulder such fiscal responsibilities. Of course, the Federal budget cannot survive under the current trend in health care costs, and insofar as poverty and unemployment increase, increasing levels of health care costs will be shifted into the public sector.

We have witnessed a long-term shift in the U.S. economy from manufacturing to services. This has been accompanied by a decline in average real wages. Since manufacturing industries are unevenly distributed around the nation, as these industries die we observe increased fiscal disparities among state and local government jurisdictions. Disparities increase the gap between these jurisdictions' ability to finance public services, dividing rich states from poor, cities from suburbs, and metropolitan from rural regions.

The dynamic of relocation by business firms and households causes economic decline to compound itself in the victimized areas, making self-extraction more difficult. The relocation process itself promotes economic inefficiency, as location decisions are distorted away from economic motives and towards criteria based on the jurisdiction's tax capacity. In other words, a firm or household's choice of location is biased away from places where, owing to low tax capacity, the prospective tax burden will be relatively high.

The traditional remedy for this problem -- general fiscal assistance -- was eliminated by the Reagan Administration and its restoration is confounded by the current, wrong-headed obsession with deficit reduction.

Income inequality is accompanied by inequity in Federal, state, and local tax systems. Insofar as state and local systems depend for revenue on fees and charges, consumption taxes, and flat taxes on income, an increase in income inequality due to sagging real wages implies decreasing equity in tax burdens. At the Federal level, the key factors in this scenario have been: the shift from dependence on the corporate income tax to the payroll tax, the flattening of income tax rates, and the preferential treatment provided to capital income, particularly realized capital gains.

General awareness of decreasing tax equity must translate into more grudging support for the public sector, another compounded effect because those victimized by lack of tax progressivity are also most harmed by lower public spending. Lower income persons come to face increased tax burdens, in terms of average effective tax rates, on top of reduced net benefits from public sector spending.

It is well known that the state-local sector has been hard hit over the past fifteen years by the shocks attributable to Federal policy: reduced real absolute levels of Federal aid to state and local governments; reduced value of Federal tax preferences which aid the state-local sector; increased unfunded mandates; and a broad expansion of the Medicaid program.

In the same vein, state and local governments have been subject to spending pressures generated by increasing school enrollments, rapid increases in health care costs, and increased public demand for incarceration of criminals.

While it would be unreasonable to expect NAFTA to cure any of these problems, the ill effects of NAFTA do not come at a propitious time for the state-local sector, especially in light of the dim prospects for Federal relief in these areas. This speaks again to the nation's virtual indifference to the policy response that would be appropriate to industrial restructuring, both for individuals, communities, and state and local governments.

State and local revenue systems have also faced increasing problems in the recent period which the NAFTA will exacerbate.

One is the reduced revenue productivity of the general sales tax, given the shift from manufacturing to services and the accompanying bias in taxation towards goods relative to services. (National Governors Association et al., 1993)

A second problem is intergovernmental fiscal competition, primarily through tax rate reductions and special tax abatements to business firms. Aptly characterized as a "race to the bottom," efforts to compete for employers by reducing business taxes and restricting regulation have fostered economic inefficiency in terms of business location decisions, as noted above, and

depleted the capacity of the public sector to perform its appointed functions. Not incidentally, there is a self-defeating quality in all this since certain types of public spending have been demonstrated to encourage the in-migration and productivity of business firms. (Bartik, 1991) Insofar as public investment is inhibited by tax competition, the nation's business climate suffers. Now this destructive competition will be magnified by locations in Mexico, who will be utterly indifferent to U.S. norms in public services, labor standards, and environmental values.

Aside from the general bias against public investment, NAFTA includes measures which directly block some customary efforts by state and local governments to support their economies. These include rules mandating or favoring procurement of goods from local or U.S. suppliers (Article 1003, Chapter 10, NAFTA agreement). This provision cannot be modified by whatever implementing legislation Congress may enact; it is an inescapable feature of the agreement.

A state or local government may wish to contract with suppliers purely for local economic interests. It may wish to register its disapproval with the conditions under which goods from foreign suppliers are produced, say, because of the use of prison labor (as in the Peoples Republic of China), because of the gratuitous degradation of the environment (as with the slaughter of dolphins in production of Mexican tuna), because of the use of child labor, or whatnot.

Fundamental exercises of self-government are prohibited under the NAFTA, and state and local governments will have no say in the approval or enforcement of the agreement. It is ironic that traditional friends of federalism from both sides of the aisle have been largely mute in the face of what amounts to a corporate power grab, dressed in the rhetoric of economic liberalization.

The application of an extremist concept of economic liberalism, in the name of free enterprise, flies in the face of the routine exercise of democratic rights to which we in the United States have become accustomed, and which regrettably the Mexican people have yet to realize. Free trade has become a rubric for the anti-democratic imposition of a retrograde social order, rather than a means for enhancing the economic prospects of the

peoples of the Americas. I urge the Members of this Committee to defer approval of any trade agreement for North America pending a fundamental rethinking and renegotiation of basic premises. Thank you for your attention.

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Mr. CONYERS. Dr. Niskanen, welcome.

**STATEMENT OF WILLIAM A. NISKANEN, Ph.D., CHAIRMAN,
CATO INSTITUTE**

Dr. NISKANEN. My economic analysis is much the same as that by Max, but I draw different conclusions.

There is no basis for anxiety that NAFTA would have adverse affects in any of the participating countries. The effects of NAFTA on the public sector are similar to and derive from the same set of conditions as the effects on the private economy.

First and most important, NAFTA would increase the average income in each member country. As with any move toward free trade, this would be the result of four conditions: A reallocation of resources toward those activities that each party does best; the economies of scale from a larger market area; the effects of increased competition on the incentive to reduce costs; and the increase on returns in investment in both human and physical capital.

The most direct effect of this condition, of course, on the public sector would be the increase of average tax revenues both at the Federal and regional level.

Second, NAFTA would reduce the costs of goods and services purchased by the public sector. Increased cross-border competition would reduce the prices of goods to both private and public parties purchasers of goods and services for which a foreign firm is the most efficient supplier.

Moreover in this case, NAFTA also overrides most of the Buy American provisions of Federal procurement laws with the exceptions of contracts that are small, minority and small business set-asides, contracts of firms of some country not in NAFTA, and some national security concerns.

This would reduce the prices of goods and services for which some foreign supplier or locally established foreign firm is the most efficient supplier but is now restricted from bidding on such contracts.

In this regard, I want to acknowledge an apparent error that is in my written testimony in which I stated that NAFTA overrides the Buy American provisions of State governments. My testimony was based upon the September 1992 basic text; and, apparently, the annex for State and provincial governments was not complete at that time.

I also want to counter an impression left by Mr. Brown that NAFTA is overriding the licensing processes for professionals and requires harmonization of these licensing requirements, either within countries or across countries.

The clear language of NAFTA in article 1210, for example, says: "A party shall not be required to extend to a service provider of another party the benefits of recognition of education, experience, licenses, or certifications obtained in another country whether such recognition was acquired unilaterally or by arrangement with that country."

It does say that the requirements for citizenship and permanent residency will be dropped, but it does not require or induce a har-

monization of professional standards, as I say, either within a country or across the different countries.

The abridgment of the Buy American provisions at the Federal level shouldn't have any direct effect on the employment in the public sector. Nothing restricts the authority of any government at any level to determine whether to produce some good or service within the government or to contract for this good or service.

NAFTA requires nondiscriminatory treatment of firms in the member countries only after a decision is made to contract for some good or service.

There is no basis for a concern that the government procurement provisions of NAFTA present a threat either to the State sovereignty or to employment in the public sector. NAFTA, however, will have several indirect effects on the public sector that should be recognized.

Contrary to the concern of some groups, NAFTA would probably lead to an improvement in the quality of the environment in each member country.

The more general effect operates through the increase in average income, increasing the demand for environmental quality. The more substantial effect will be the reduction of pollution along the United States-Mexican border by transforming what is now a narrow maquiladora strip into all of Mexico.

In other words, the trade benefits of operating in the maquiladora area would be extended to the whole of Mexico, greatly diffusing the conglomeration problems of pollution in that area.

Moreover, the basic text of NAFTA includes a lot of greenery, more than in any—

Mr. CONYERS. Excuse me, Dr. Niskanen. Excuse me, sir.

There are exactly 5½ minutes remaining on a recorded vote. And Al McCandless and I have agreed to come back as soon as we dispose of that, if you will permit that interruption.

Dr. NISKANEN. I can stay, sir, if you expect to be back before long.

Mr. CONYERS. I tell you what, I will walk more quickly to the floor and back just to make sure that we can have a chance for a discussion.

Mr. MCCANDLESS. Doctor, we are talking somewhere between 10 and 12 minutes, if that is acceptable to you. You gentlemen have been very patient, being the last panel; and I understand the frustration that you find yourself in.

Unfortunately, the system isn't cooperating. I would like to share some thoughts back and forth. That is why I am interested, if that is agreeable.

[Recess taken.]

Mr. CONYERS. Thank you very much.

Dr. NISKANEN. Shall I continue, sir?

The basic text of NAFTA includes a lot of greenery, including the rights of national, regional, and local governments, to set their own environmental standards even if they are stronger than the international standards.

The concerns about the environmental effects of NAFTA, I believe, are without merit.

As I mentioned above, a reduction of trade barriers will increase average income; much more so in Mexico than in the United States.

For a high-wage country, free trade has a distributional effect that merits attention and a public sector response. NAFTA, like other measures to reduce trade barriers, would increase the demand for high-skilled labor in the United States and increase the effective supply of low-skilled labor.

This would increase the difference in earnings over the range of skills, a condition that has affected all of the major industrial countries for about 20 years.

Free trade, in brief, creates problems for low-skilled people in high-wage countries. That should be recognized, and we should respond to that. The appropriate response to this effect, I suggest, is to assist our low-skilled workers with such measures as vocational training and the earned income tax credit, rather than by trade restrictions that help our low-skilled workers only by harming the low-skilled workers of other countries.

A final effect that should be recognized is that NAFTA will increase the competition among the Governments of North America, a condition that I favor and Max apparently doesn't like.

As in the private economy, increased competition can create problems for particular organizations, but it has clearly beneficial effects for the population. Reduced barriers to the movement of goods, services, and capital, would make each government more responsive to the interests of voters, taxpayers, employers, and investors even though the restrictions on migration across national borders are maintained.

Laws, regulations, programs, and taxes that serve narrow interests may, in fact, be weakened by NAFTA. In some cases, there may be an indirect effect of lower standards, if the standards themselves are more costly than they are worth. And that is the basis for the opposition by some groups that support these high standards.

On the other hand, some governments may not now be doing enough to meet the demands, for example, for such services as vocational education. There is reason to expect that NAFTA would make the public sector more efficient and more responsive but with no obvious effect that would change its relative size.

Finally, you may have noticed that I have not used the four letter "J" word. Many of the groups supporting or opposing NAFTA, unfortunately, have grossly inflated the effect on jobs. The issues at stake in your decision whether to approve NAFTA are the average level of wages, the return on investment, output, and income, not total employment.

NAFTA would have no measurable effect on total employment in any of the member countries. That giant sucking sound you hear is a blast of hot air from Ross Perot.

NAFTA is one of those issues by which we make a statement to the world—about who we are—about whether we are a confident or a defensive Nation, whether our government is prepared to serve

the general interest rather than a collection of parochial interests, whether we are prepared to live peacefully and productively with a newly confident but still poor Nation on our southern border.

I urge this subcommittee to give NAFTA its wholehearted support.

Thank you.

[The prepared statement of Dr. Niskanen follows:]

Impact of NAFTA on the Public Sector

Testimony

by

William A. Niskanen
Chairman
The Cato Institute

Subcommittee on Legislation and National Security
of the
House Committee on Government Operations

27 July 1993

Mr. Chairman and members of this subcommittee: May I summarize my remarks by saying that there is no basis for anxiety that NAFTA would have adverse effects on the public sector in any of the member countries. For the most part, the effects of NAFTA on the public sector are similar to and derive from the same conditions as the effects on the private economy.

First and most important, NAFTA would increase the average income in each member country. As with any move toward free trade, this would be the result of:

- a reallocation of resources toward those activities that each party does best,
- the economies of scale from a larger market area,
- the effects of increased competition on the incentive to reduce costs, and
- the increase in the returns on investment in both human and physical capital.

The most direct effect of these conditions on the public sector would be to increase average tax revenues.

Second, NAFTA would reduce the costs of goods and services purchased by the public sector. Increased cross border competition would reduce the prices to both private and public purchasers of goods and services for which a foreign firm is the most efficient supplier. In this case, moreover, NAFTA also overrides most Buy America provisions of federal and state procurement laws--with exceptions for contracts that are small, with firms owned by nationals of some countries not in NAFTA, or

involve a national security concern. This would reduce the price of goods and services for which some foreign supplier or locally established foreign owned firm is the most efficient supplier but is now restricted from bidding on such contracts.

There should be no questions that Congress has the authority to override these provisions. The Constitution clearly authorizes Congress "to regulate Commerce with foreign Nations, and among the several States." Nor does the abridgement of the Buy America provisions have any direct effect on employment in the public sector. Nothing in the Buy America provisions or in NAFTA restricts the authority of American governments at any level to determine whether to produce some good or service within the government or to contract for this good or service. NAFTA requires nondiscriminatory treatment of firms in the member countries only after a decision is made to contract for some good or service. There is no basis a concern that the government procurement provisions of NAFTA present a threat to either state sovereignty or employment in the public sector.

NAFTA, however, would have several second order effects on the public sector that should be recognized.

Contrary to the concerns of some groups, NAFTA would probably lead to an increase in the quality of the environment in each member country. The more general effect would be the consequence of the increased demand for environmental quality resulting from the increase in average income. The more substantial effect would be the reduction of pollution along the

U.S.-Mexican border, in effect, by transforming all of Mexico, rather than a narrow border area, into a maquiladora. Moreover, the basic text of NAFTA includes a lot of "greenery"--including the rights of national, regional, and local governments to set their own environmental standards even if they are stronger than international standards. The concerns about the environmental effects of NAFTA, in summary, are without merit.

As I mentioned above, a reduction of trade barriers increases average income. For the high wage countries, however, free trade has a distributional effect that merits attention and a public sector response. NAFTA, like other measures to reduce trade barriers, would increase the demand for high skilled labor in the United States and increase the effective supply of low skilled labor. This would increase the difference in earnings over the range of skills, a condition that has affected all of the major industrial countries for about 20 years. Free trade, in brief, creates difficulty for low skilled people in high wage countries. The appropriate response to this effect, I suggests, is to assist our low skilled workers with such measures as vocational training and the earned income tax credit rather than by trade restrictions that harm the low skilled people of other countries.

A final effect that should be recognized is that NAFTA will increase the competition among the governments of North America. As in the private economy, increased competition can create problems for some governments but has clearly beneficial effects

for the population. Reduced barriers to the movement of goods, services, and capital would make each government more responsive to the interests of voters, taxpayers, employers, and investors even though the restrictions on migration across national borders are maintained. Laws, regulations, programs, and taxes that serve narrow interests may be weakened by NAFTA, and that is the basis for the opposition by some groups. On the other hand, some governments may not be doing enough to meet the demands, for example, for vocational education. There is reason to expect that NAFTA would make the public sector more efficient and responsive but with no obvious effect that would change its size.

Finally, you may have noticed that I have not yet used the four letter "J" word. Many of the groups supporting or opposing NAFTA, unfortunately, have grossly inflated the effect on jobs. The issues at stake in your decision whether to approve NAFTA are the average level of wages, the return on investment, output, and income--not jobs. NAFTA would have no measurable effect on total employment in any of the member countries. That giant making sound you hear is a blast of hot air from Ross Perot.

NAFTA is one of those issues by which we make a statement to the world--about whether we are a confident or a defensive nation, whether our government is prepared to serve the general interest rather than a collection of parochial interests, whether we are prepared to live peacefully and productively with a newly confident but still poor nation on our southern border. I urge this subcommittee to give NAFTA its wholehearted support.

Mr. CONYERS. Thank you, very much.

Mr. MCCANDLESS. Thank you, Mr. Chairman. I would pose this question to both of our panel members. We have talked about low-skilled jobs in the labor market currently. Critics of NAFTA say that the agreement would cost U.S. employees these low-skilled jobs. So my question is in what sectors of the U.S. industry do low-skilled jobs predominate and what would happen to these jobs without NAFTA?

Dr. NISKANEN. The sectors are most likely to be in, for example, apparel and parts of the agricultural sector. And what happens to those people depends very much on the general economic climate in the immediate regions.

Over the past decade, for example, the textile, apparel, and home furnishings industries, has lost almost half a million jobs. But most of that job loss has been in the Southeast of this country where per capita income has been increasing about as fast as any place in the country. So the job loss in textiles and apparel has generally had benign regional effects because the general economic climate of the region has been quite healthy.

Now, if you were employed in a company town in some back hollow, that can be a more serious problem. But the evidence of what happens when these people lose their apparel jobs and regain employment is really quite interesting.

When people have lost their apparel jobs, many of them drop out of the labor force, often women. Those people who move typically are re-employed at a higher wage than at their apparel wage because it basically breaks the lock of the company town on them. So, we can identify fairly clearly, I think, where the jobs will be lost in terms of what sectors, and we can identify roughly what will happen to those people depending very much on whether the general economic climate of the State or the region in which those firms operate is healthy or weak.

Mr. MCCANDLESS. Did you have any comment?

Dr. SAWICKY. I would like to add for emphasis that the scenario by which low-skilled jobs are replaced by the high-skilled jobs the truth of which I do not concede, is not that the low-skilled worker becomes a computer programmer or a brain surgeon. What you would have is people coming into the labor force who start from a somewhat higher niche. You would have people in the upper section of the wage distribution who have somewhat better opportunities. The fate of the persons displaced is nothing so pleasant. There are studies of the fate of displaced workers that show that they end up with very much lower wages. They often leave the labor force altogether—and you have involuntary retirement. This is signaled strongly in Dr. Reischauer's testimony on page 14 where he points out that there are substantial "retraining costs," I quote Dr. Reischauer:

"A key issue is whether existing programs"—and he lists a few—"are sufficient and appropriate to handle the needs of workers displaced by NAFTA." Again, commitments and good intentions notwithstanding, in the current budget environment we have to ask very seriously whether given it is appropriate to undergo a course of action where you are not likely to satisfactorily address these adjustment costs.

Dr. NISKANEN. I think it is important to put the magnitudes in context, however. The number of workers that might be displaced by NAFTA in the United States is in the 200,000 to 500,000 range. During the Reagan years, this country created roughly 200,000 jobs a month for 8 years in a row from 1982 to 1990. And so, this is small change. And if the general economic climate of the country is healthy, we can absorb an awful lot of replacement or reallocation of labor without any significant problems.

We will be releasing something like a million people from the military and from defense-related contractors over the next several years, and that will be a substantially larger reallocation of resources than we should expect from NAFTA, but still is the slowest of the defense conversions that we have experienced since 1945. So the real focus of your attention as Members of Congress should be on measures that affect our general economic environment and those of your colleagues in the States on the State economic climate.

And given that, we can absorb a great deal of reallocation of the magnitudes that would be implicit in either NAFTA or quite clear in the case of the defense conversion process.

Mr. MCCANDLESS. There are those who say that without NAFTA, Mexico will become the spring board of the Asian countries and that that would result, then, in a lack of coordinated, controlled environment, customs enforcement, and surveillance, and all of the other things which NAFTA attempts to address in its relationship between countries, and that Mexico, without a NAFTA would be under no pressure to work with the United States to police its borders, preserve its environment, improve workers' rights, or anything else. How would you gentlemen respond to this?

And then what we would actually end up with if this scenario were to take place is we would have NAFTA, only it wouldn't be NAFTA. It would be Asia and Asia would be using Mexico as a way by which to enter the markets of the United States at a lower tariff rate if they were to prevail.

Dr. NISKANEN. My judgment is that the substantial economic reforms in Mexico will continue whether or not NAFTA is approved. I think NAFTA would have the effect of locking them in. But importantly, NAFTA gives the United States, as well as Canada, advantages in operating in the Mexican market that would not exist in the absence of NAFTA. If NAFTA is not approved, Mexico will continue to be a better investment climate than it was in the past, but by both American companies and Japanese companies and others, whereas with NAFTA we would have special advantages in investing in Mexico.

I fully expect the Japanese and Germans and others to invest in Mexico, too, over the years, largely as a function of the substantial reforms that they have made to date and are likely to continue. But NAFTA, as I say, gives us special preferences for investment in Mexico relative to that of the other countries. I would not expect Mexico to flaunt a relationship with Japan or some other country by establishing a free-trade agreement but it is quite clear that they would seek investments from other parties if the policy relationships with the United States turned cool for whatever reason.

Dr. SAWICKY. A lot of the treaty and the pleas on its behalf from the administration and the previous one, consist of verbal assurances regarding many of the objections raised which rely on the Mexican Government to do quite a lot. I think our expectations ought to be discounted practically to zero, given that the Mexican Government is dysfunctional, corrupt, and undemocratic. In that context it is difficult to foresee effective implementation of any number of things that are in the text of the treaty.

Mr. McCANDLESS. My final question—and I take a page out of the chairman's book, if I may—he talked about how we are all friends and we are all trying to find the common denominator, yet so many groups and organizations are opposed to the North American Free Trade Agreement. And how do we reconcile this with respect to the administration, our own district, the political process? What is wrong here? We have our leader saying one thing, and yet by testimony and other activities such as correspondence and town halls we have people saying things against it. You, gentlemen, what would be your assessment of why we find ourselves in this kind of a situation where men of genuine professional ability are disagreeing dramatically over something that seems to have an attraction in the long term, and yet that attraction is not being shared by the average person in the street?

Dr. NISKANEN. Well, sir, my guess is that less than half of Americans could even tell you what NAFTA means. So I think that this is not a matter in which there is a broad popular understanding or concern.

You do have a number of patterns, however, which are consistent with that in prior trade issues. Presidents of both parties typically are in favor of freer trade because they represent a national constituency rather than a regional constituency and they also have other dealings with other countries in which they don't want trade to be a complicating issue.

So I would expect that whoever is elected President over the remainder of my life is likely to be relatively favorable to free trade, compared to most Members of Congress. Members of Congress represent particular districts and some of those districts may very well be losers with trade liberalization. Members of Congress find it difficult, for reasons that you understand better than I, to vote based upon a national interest or the average interests of people in the country, rather than the interests of particular people in their groups.

Now, others even though their own district may not be harmed, have special concerns about individual groups within the society that may be harmed. And I think that explains the reason why there is concern by a lot of groups, because it is quite clear that low-skilled people in high wage countries are going to have trouble with increased globalization of the world economy. They will find themselves increasingly in competition with low-skilled people in low-wage countries, and without something special to offer, they will be in trouble. I think that the response to that of protectionism or maintaining border controls of any kind on goods or services or people, is the wrong response. Because in effect what that does is that it protects our low-skilled people at the expense of our high-

skilled people and at the expense of the low-skilled people in other countries.

It seems a rather strange form of benevolence or generosity in that case to exploit the low-skilled people in another country. Some people, I think, are just misinformed or misunderstand the consequences. I think a lot of people are misinformed about what is in NAFTA already. It has a great deal of environmental protection in it, for example. Some people, I think, are just misinterpreting it entirely. The people who are at most blame for being careless about the facts are some part of the environmental community. You have had half a dozen environmental organizations endorse NAFTA and some major ones criticize it. And there is no reason to question the environmental credentials of either group. But the issue here, and Bob Reischauer explained it quite well, is that you have a situation where you have diffuse benefits and concentrated costs, the sum of the diffuse benefits in dollar terms is greater than the concentrated costs in dollar terms.

In other words, that is why we conclude that the average incomes will go up, but that our political process, except in rare occasions, is unlikely to be responsive to those kinds of opportunities. We did it in 1986 with the passage of the Tax Reform Act of 1986. And we have done it occasionally with trade agreements. But more often than not, our political presence responds to quite different pressures, which is in favor of people who have concentrated benefits or to protect people who would otherwise have concentrated costs.

So trade agreements, I think, have to be or ought to be addressed almost as if you didn't know who your constituency was. If you were a Member of Congress but didn't know who you represented, would you vote for it? In that case you would almost surely vote for free trade and tax reform and a variety of other measures because you would be less inclined to support the parochial interests, however well meant and however solidly documented for your particular constituency.

Dr. SAWICKY. I don't think this is about regions at all. I think it is about social class. It is about people who rely for income on their own labor and are bound to particular places where they live and work. On the other hand, there are more fortunate people who have more options who are more mobile, who have savings and assets who can switch jobs with relatively ease, who can thrive even for lack of a job for some period of time. The experience of people in the first category over the past 15 years amply supports suspicion of yet another weight on the balance in favor of cheapening the value of labor in the United States. We need only look at the fate of manufacturing workers over the past 15 years in the United States.

NAFTA may be one of the smaller things on the list that have combined to worsen the economic prospects of those people. It is common wisdom, not least because employers remind them of it, that you will accept lower wages or else we will take this shop and move it to a place where people make \$50 a week or whatever. In that context, people's reluctance to sign on to another exercise of this type is understandable. More deeply, what is going on here are two fundamentally different visions of how an economy works.

In one vision resources allocation improved, the more interchangeable and the more movable and adjustable workers consent to be. By another vision which is characterized by the social charter in the European Community, we begin economic development from the premise that government has an important role in reflecting people's preferences regarding conditions in their communities, preferences about the way things are produced—in sum their legitimate democratic interests in regulating the economic environment.

We start from a premise that builds upon that rather than turning the whole structure on its head. As Mr. Brown very ably pointed out, NAFTA is an agreement that goes into endless detail about all the things Federal, State, and local governments, meaning their voters, cannot do.

Mr. CONYERS. Thank you very much, Al McCandless, for your questions and thank you very much gentlemen. I have two peripheral questions and we will be done.

One deals with the historic inability of our country's government to deal with effective job retraining systems. The second has to do with the relocation activities of corporations, not necessarily out of the United States, but even within the United States, that may be aggravated by a NAFTA agreement. And I would like to just see what you are thinking about with reference to those two points.

Dr. NISKANEN. Our government has proved to be very effective when it has tried to assist the transformation process. Often it has been counterproductive. The Trade Adjustment Assistance Program, itself, for example, has typically delayed the time of rehiring, delayed the reemployment of people rather than facilitated the reemployment of people. And in some cases it has assisted people who have been displaced for reasons quite other than trade.

I think our economy as a whole, however, does fairly well in that regard. We made very much more substantial reductions in trade barriers, for example, under the Kennedy Round and under the Tokyo Round than we are considering under NAFTA. And the Kennedy Round took place in a period of time in which we had a 9-year sustained recovery from 1960 to 1969. The Tokyo Round took place in a period in which we had an 8-year sustained recovery from 1982 to 1990, and in which general economic conditions were healthy and were generating 200,000 jobs or so a month. We accommodate these reallocations much better than other economies of the world.

We bemoan the fact that our unemployment rate is 7 percent and it is too high, but it is over 11 percent in Canada, and it is 11 percent or so in Europe. And more importantly in Europe, more than half of the unemployed have been unemployed for more than 1 year. And the United States is something like a sixth or seventh of the unemployed have been unemployed for a long time. So we have a track record of being able to provide an environment in which people can find other jobs fairly quickly. And even with all that is going on in our economy, our unemployment rate that is now, believe it or not, among the lowest in the industrialized world with the exception of Japan, I think that we can do the job very well.

We do not have very much of a record of success stories to tell about formal efforts to retrain and move and assist the process by the government.

Dr. SAWICKY. Well, insofar as the government is alleged to be ineffective in this exercise, it weakens the case for the agreement. If we acknowledge these important costs of transition, adjustment, and displacement, and if we don't think the government can do very much, or we are less than inclined to think government will be successful, then we ought to be less enthusiastic about NAFTA.

Putting that aside, I think there are two problems with job retraining, without going into a dissertation. One is very much what Bill alluded to in terms of the problem of targeting services and benefits. In particular, concentrating resources on those who need it the most, rather than surrendering to the dynamic of the political process where everybody has to get a piece for anything at all to get done. That is one.

A second one that I would point to, because the Economic Policy Institute has a study on it, is the privatization element of the Job Training Partnership Act. This has thwarted the public purpose underlying the entire exercise. The public purpose I take to be matching the worker to the best job for which he or she is suited. In that process we give the employer the best hire available. The privatization incentives in JTPA have tended to reward volume in terms of placements and rapidity of replacements, which is not quite the same thing.

In that process the less qualified worker is passed over because they are harder to place for the profit-seeking entrepreneur who has been contracted out to retrain and to place people in jobs. I would just mention those two things. As far as the unemployment rates go, since I was talking with somebody about this recently, if you compare the unemployment rates using some effort to make sure the definitions are the same for Europe and the United States, there is less dispersion than is apparent from the official rates. We are still lower, but the gap is less obvious.

To some extent, I will acknowledge that Western European countries have chosen somewhat higher unemployment for the sake of higher standards for those who work. The way they deal with those who are not employed is with higher public employment and social benefits. In our country, we have a bias in favor of somewhat more employment with lower standards for those who work. Given that choice, it becomes even more incredible to hope that we will be able to easily solve unemployment problems in the United States resulting from NAFTA. That is not merely a matter of the unemployment rate, but of those who have left the labor force and who ought to be in it.

Mr. CONYERS. This discussion brings to mind the city of Highland Park, MI, international headquarters of Chrysler Corp. Chrysler reneged on an agreement from which they extracted healthy tax cuts since this had been their historical international headquarters.

They were able to persuade Highland Park that they were merely starting a research division in Auburn Hills, so the Highland Park local government, as required by State law, forgave them this tax abatement to allow them to seek another tax abatement, which having been secured, led Chrysler to then leave Highland Park.

The losses total in excess of \$4 million a year for a city of 20,000 people. So you can imagine the staggering blow that has been visited upon them as a result of this decision. We are finding other kinds of—similar kinds of examples. Question: Will those kinds of horror stories be increased, decreased, or not affected by the North American Free Trade Agreement?

Dr. NISKANEN. I think not very much affected, but possibly increased. The real issue is whether there has been a breach of contract and if there has been, then I think the law ought to go after Chrysler. I used to be an executive of Ford Motor Co. and I lived in the area, and I know that the Big Three have often played rough and loose with local politics. And if there has been a breach of a promise about what to do in exchange for a tax waiver or preference, then they should be in court for it.

I think that there is a misperception which a lot of people have, however, about the competitive threats to the United States. Our major competitive problems are with the highest wage countries in the world, not with the lowest wage countries in the world. We don't have competitiveness problems with Bangladesh, Zaire, and the Islands of Indonesia and so forth. Our competitiveness problems are with Japan and Germany and the highest wage countries in the world. It isn't wages, but it is the relationship of wages to productivity that is the key. And the idea somehow that there is a flood of jobs ready to move to Mexico if we drop the trade barriers along that border is a gross misunderstanding of the current state of the world.

NAFTA will help us. It will help the Mexicans proportionately somewhat more. It will make it easier for us to live on the longest border in the whole world between a rich country and a poor country and that should be sufficient reason to go ahead with it. We shouldn't promise economic nirvana, however, in either our country or their country as a consequence. But I think it is worthwhile to do. Particularly the case for it is stronger if our general economic environment were healthier. That would help us handle all kinds of problems, including the draw down of the defense department and some others, much more easily than what we may find otherwise. There is more reason to expect concern about free trade when the general economy is weak than when the general economy is strong. I think that a good bit of the anxiety about NAFTA is because the recovery from the 1990-91 recession has been unusually weak. And it doesn't appear as if the prospects for a long-term growth path are very promising either. And that is the problem, and not the reallocations of a rather small magnitude that would be triggered by NAFTA.

Mr. CONYERS. Thank you.

Dr. SAWICKY. Your question speaks to the problem, which I alluded to, of intergovernmental competition, fiscal competition through lower tax rates, which I view as quite destructive. It points to something more general: The irrational system of finance we have in our Federal system. It is too decentralized. It is difficult to tax capital at the local level. I wish it were not. With a more rational system of finance, whereby State governments are able to help local governments more and the Federal Government is able to help both types of governments more with general assistance

and other types of grants in aid—apart from the entire amount of spending or revenue that is in the public sector—I think we would reduce inefficiencies at the local and State level arising from location decisions. Disparities also speaks to inequality between persons and communities.

Given the irrational nature of our decentralized revenue system, and by the assignments of functions relating to poverty to State and local governments which is entirely inappropriate given the nature of those problems, in such circumstances, yet another exercise like NAFTA is something for which, especially given the state of the economy, we are not well-prepared even under the scenario that it provides positive net benefits eventually.

Mr. CONYERS. Gentlemen, you have helped us a lot. We hope that your writings and your words are widely regarded within the Congress as we move toward this subject matter. And I can't thank you enough for staying as long as you have.

We would also like to thank Jane Cobb, Monty Tripp, Jim Turner, Cheryl Phelps, Rosalind Burke-Alexander, Carl Levan, and Robert Weiner, who all helped to put this hearing together. I, of course, am indebted to my dear friend, Al McCandless, who has been here from the beginning to the end. The subcommittee stands adjourned.

[Whereupon, at 3:56 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

U.S. DEPARTMENT OF LABOR

SECRETARY OF LABOR
WASHINGTON, D.C.

JUL 22 1993

The Honorable John Conyers, Jr.
Chairman
Subcommittee on Legislation
and National Security
Committee on Government Operations
U.S. House of Representatives
Washington, D.C. 20515-6143

Dear Mr. Chairman:

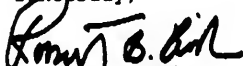
I want to thank you for your invitation to appear before the Subcommittee on Legislation and National Security regarding the impact of the North American Free Trade Agreement (NAFTA) on Federal and state procurement laws and related issues. I must, however, decline your invitation at this time in that the issues of concern to your Subcommittee over which I have jurisdiction have not reached a point where a public hearing is an appropriate forum.

As you know, the NAFTA is of great importance to the United States and its adoption, with significant side agreements, is a major priority of this Administration. One of the main focuses of your hearing, the impact of the Agreement on jobs in the public and private sectors, is also the focus of one of the side agreements currently being negotiated. In addition to the side agreement, one of my highest priorities as Secretary is to develop a comprehensive dislocated workers program which will offer rapid response, and an improved array of information, re-adjustment and training services to workers regardless of the specific cause of dislocation. We are currently developing that program and I believe that it will address many of your concerns. As we move forward I will welcome any comments or suggestions that you or any Subcommittee members may have on our proposals.

Many of the other issues of interest to the Subcommittee are more in the purview of the United States Trade Representative. I urge you to contact his office for additional information.

The North American Free Trade Agreement and its impact on all three countries of the continent is of great concern and interest to us all. I applaud you and the Subcommittee for its work and interest on this crucial issue.

Sincerely,



Robert B. Reich

CHAIRMAN CONYERS' FOLLOWUP QUESTIONS - HONORABLE RUFUS YERXA

I. GOVERNMENT PROCUREMENT

1. Under NAFTA, U.S. Canadian and Mexican suppliers are given "national treatment", or equal opportunity to compete in each of the other procurement markets. However, it seems that there is greater opportunity in the U.S. market for foreign suppliers than in foreign markets for U.S. suppliers.
 - Describe briefly the comparative size and value of the U.S., Canadian, and Mexican procurement markets that would be subject to non-discriminatory competition under the agreement.
2. Mexico is allowed a ten-year transition period to come into compliance with the procurement provisions of NAFTA, as well as an annual set-aside of \$1 billion.
 - Given these exclusions, what is the actual commercial value of the Mexican procurement market that is covered by the agreement in year one? In year five? In year eight?
 - How does this compare with the opportunities in the U.S. government procurement market available to Mexican suppliers?
3. This \$1 billion set-aside excludes a significant portion of the Mexican market from coverage under the agreement, and increases to \$1.2 billion after ten years.
 - What sectors are affected by this set-aside?
 - Why did we agree to exclude such a large portion of the Mexican market when so much of the U.S. market is open to competition? How does this compare to our agreement with Canada?
 - How is this fair to U.S. suppliers?
4. The agreement applies to procurement contracts by covered Federal departments and agencies of over \$50,000 for goods and services and \$6.5 million for construction services. For procurement contracts by government-owned enterprises such as Mexico's PEMEX and CFE, the threshold for procurement coverage is \$250,000 for goods and services and \$8 million for construction services.
 - What percentage of the Mexican procurement market meets the criteria for the \$50,000 threshold for coverage?
 - How does this compare with Mexico? With Canada?
 - How do you anticipate small and minority businesses will be able to compete in a market with such a high threshold?

- Given that so much of the Mexican procurement market is subject to this high threshold, doesn't this agreement best serve the interests of larger companies? At the same time, won't small businesses in the U.S. be faced with greater competition from Mexican suppliers?
- Is there anything in the agreement that would compel the U.S., Canada, or Mexico to direct any minimum share of procurement business to suppliers of either of the other NAFTA signatories?
- 5. Critics suggests that Mexico could easily evade even the high dollar thresholds that apply to PEMEX and CFE by breaking up a procurement into smaller component parts that would come in below the threshold.
 - What specific provisions in the agreement prohibit this activity?
- 6. In a slight break from its prohibition on foreign ownership of energy resources, Mexico agreed under NAFTA to allow contracts for oil and gas drilling services to include "performance clauses", for example, a clause giving a foreign drilling service firm a share of the oil produced from a well if it exceeded a certain volume.
 - Is there anything in NAFTA that would actually require Mexico to put performance clauses in the contracts they enter into with U.S. firms?
 - If Mexico did give U.S. firms performance clauses in their contracts, it appears that the only way such clauses could help U.S. firms gain ownership interest in the Mexican oil industry would be if they gave U.S. firms a share of the oil or gas found. How likely is this to happen?
- 7. Critics of NAFTA suggest that State governments may be compelled to maintain procurement policies and practices that conform to the requirements of the agreement.
 - Are there any instances in which you can envision NAFTA procurement laws prevailing over State laws?
 - What language in the agreement specifically precludes NAFTA from preempting State procurement laws?
 - Can States participate in the dispute resolution process? If not, how do States protect their interests?
- 8. The U.S. and Canada are signatories of the GATT Agreement on Government Procurement (the Code), a multilateral trade agreement governing international procurement, but Mexico is not. An earlier draft of the agreement, stated that NAFTA's obligations would prevail in the event of any inconsistency with the Code.
 - Does this provision still exist anywhere in the agreement?

- In the event of inconsistency between the Code and NAFTA, which agreement would prevail?
- What language in the agreement specifically sets out the obligations of NAFTA vis a vis that of the GATT Government Procurement Code?
- How will NAFTA effect the scope and coverage of the Code?

II. IMPACT ON PUBLIC SECTOR ACTIVITIES

9. President Clinton has indicated that the NAFTA implementing legislation will include provisions for comprehensive worker adjustment assistance. The Administration has also committed to seeking additional environmental funding to clean-up specific sites and for infrastructure improvement.
 - Please describe briefly the Administration's dislocated worker assistance program. How does its development co-incide with the side agreements? With the implementing legislation?
 - What will these programs cost? How will they be financed?
 - Have non-taxpayer sources of funding been identified to conduct the environmental cleanup needed at the U.S.-Mexico border area? What is the anticipated cost of this cleanup?
10. NAFTA critics anticipate that claims for unemployment will rise and additional demands for job retraining, and health and social services will fall to a public sector with sharply depleted resources.
 - How do you respond to this criticism?
 - You have stated in testimony that NAFTA will not result in significant job loss, why then is it necessary to develop provisions for dislocated worker assistance?
11. I understand that "non-conforming" public services that governments wish to exempt from the agreement must be officially listed within two years.
 - Please give me an example of a "non-conforming" public service. Please describe the process by which public services are exempted from the agreement.
 - This only applies to existing services, how would we exempt a public service that we wish to expand? How would be exempt a new public service?
 - What if the other signatories to the agreement object to the exemption of a particular public service?
 - Doesn't this undermine the Administration's goals for health care reform?

III. NAFTA'S PRE-EMPTION OF STATE SOVEREIGNTY

12. Critics of the agreement predict a downward "harmonization" of social, economic and environmental standards to match the lowest prevailing standards.
- How do you respond to testimony from our Canadian witness that the U.S.-Canadian agreement did in fact result in a lowering of standards in Canada?
 - What provisions in NAFTA ensure that state laws and regulations that are inconsistent with the interests of other signatories are not weakened?

DEPUTY UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C. 20506


OCT 7 1993

The Honorable John Conyers, Jr.
Chairman, Legislation and National Security Subcommittee
Committee on Government Operations
c/o Rosalind Burke-Alexander, Clerk
B-373 Rayburn House Office Building
Washington, D.C. 20515-6143

Dear Chairman Conyers:

Thank you for your letter of August 5 requesting answers to follow-up questions on the testimony I presented to your Subcommittee. We received your letter on August 24. Enclosed are my responses. I trust that you will find them helpful in your continuing deliberations regarding the impact of the NAFTA on the public sector. As you will see from these responses, we are confident that the NAFTA will offer significant new opportunities to U.S. small and minority businesses in areas like government procurement. I remain available to assist you in any way as you study the details of the agreement.

Sincerely,


Rufus Yerxa

Enclosure

I. GOVERNMENT PROCUREMENT

1. Under NAFTA, U.S., Canadian and Mexican suppliers are given "national treatment", or equal opportunity to compete in each of the other procurement markets. However, it seems that there is greater opportunity in the U.S. market for foreign suppliers than in foreign markets for U.S. suppliers.

-- Describe briefly the comparative size and value of the U.S., Canadian, and Mexican procurement markets that would be subject to non-discriminatory competition under the agreement.

ANSWER: While the U.S. procurement market covered by the agreement is larger than either the Canadian or Mexican markets, U.S. firms provide a wider array of products and services than firms in the other two countries and will be competitive on a higher proportion of contracts in the other two markets than will Canadian and Mexican firms in the U.S. market.

A key consideration is the additional value of U.S. procurement opportunities that will be open to foreign competition under the agreement for the first time. Using this yardstick, the value of U.S. liberalization is limited to the portion of the \$6-7 billion of covered construction contracts that is spent on materials and supplies. All other areas of covered U.S. procurement are already open under the GATT Code or the Canadian Free Trade Agreement or have not been previously subject to restrictions, like covered services contracts. In contrast, Mexico is opening its procurement market to foreign suppliers for the first time.

2. Mexico is allowed a ten-year transition period to come into compliance with the procurement provisions of NAFTA, as well as an annual set-aside of \$1 billion.

-- Given these exclusions, what is the actual commercial value of the Mexican procurement market that is covered by the agreement in year one? In year five? In year eight?

-- How does this compare with the opportunities in the U.S. government procurement market available to Mexican suppliers?

ANSWER: The transition period and set-aside amount to only a small proportion of the \$19 billion Mexican government procurement market. Under the NAFTA, the majority of this market will be open to competition from U.S. products and services. At this point in time, the actual value of the Mexican procurement market covered under the agreement in future years cannot be predicted with certainty. The agreement requires, however, a

growing proportion of the entire Mexican procurement market to be liberalized each year.

The U.S., in contrast, negotiated various exceptions, like small and minority business set-asides and "Berry Amendment" defense procurements, that will not have to be reduced over time. In fact, the U.S. maintains considerable flexibility in administering set aside programs. The value of the small and minority business set-aside exception is roughly \$5 billion, while the value of other non-national security exceptions is approximately \$35 billion.

3. This \$1 billion set-aside excludes a significant portion of the Mexican market from coverage under the agreement, and increases to \$1.2 billion after ten years.

-- What sectors are affected by this set-aside?

-- Why did we agree to exclude such a large portion of the Mexican market when so much of the U.S. market is open to competition? How does this compare to our agreement with Canada?

-- How is this fair to U.S. suppliers?

Answer: It is not anticipated that this set-aside will affect any one sector disproportionately since there are restrictions on the proportion of the total set-aside that can be claimed by individual entities. Additionally, the Mexican annex restricts the value that can be set aside for individual classes of products in the Federal Supply Classification System.

On balance, this set-aside is subject to more stringent restrictions than the exceptions provided for U.S. small and minority business set-asides. The preservation of these set-asides ensures that U.S. small and minority businesses will only gain under NAFTA through increased access to the Mexican and Canadian procurement markets, while maintaining preferences in the U.S. market. Under the procurement chapter, the U.S. will cover only one-quarter of total U.S. federal procurement opportunities, most of which have been open to foreign competition already.

4. The agreement applies to procurement contracts by covered Federal departments and agencies of over \$50,000 for goods and services and \$6.5 million for construction services. For procurement contracts by government-owned enterprises such as Mexico's PEMEX and CFE, the threshold for procurement coverage is \$250,000 for goods and services and \$8 million for constructions services.

-- What percentage of the Mexican procurement market meets

the criteria for the \$50,000 threshold for coverage?

- How does this compare with Mexico? With Canada?
- How do you anticipate small and minority businesses will be able to compete in a market with such a high threshold?
- Given that so much of the Mexican procurement market is subject to this high threshold, doesn't this agreement best serve the interests of larger companies? At the same time, won't small businesses in the U.S. be faced with greater competition from Mexican suppliers?
- Is there anything in the agreement that would compel the U.S., Canada, or Mexico to direct any minimum share of procurement business to suppliers of either of the other NAFTA signatories?

Answer: It is an accepted premise in international trade negotiations on government procurement that thresholds for government-owned enterprises should be generally higher than those for central government ministries, departments, and agencies. Parastatals, for example, must operate daily subject to more competitive constraints than is true for government agencies that have no private sector equivalent. Nevertheless, the higher thresholds for government-owned enterprises (which apply to U.S. federally-owned power generation utilities as well) are still low enough to capture most procurements of significance to U.S. suppliers.

Our work with U.S. firms of all sizes has indicated that there are substantial new market opportunities available to small U.S. businesses. Moreover, small businesses will have ready access to subcontracting opportunities with U.S. companies that win some of the larger procurement contracts let by Mexican parastatals. These new opportunities, coupled with the preferred access U.S. small businesses have in the U.S. procurement market through set-asides, ensure that these firms can only gain as a result of this agreement.

5. Critics suggest that Mexico could easily evade even the high dollar thresholds that apply to PEMEX and CFE by breaking up a procurement into smaller component parts that would come in below the threshold.

- What specific provisions in the agreement prohibit this activity?

Answer: Article 1001:4 and Article 1002 provide more than an adequate guarantee that any attempt at circumvention through the subdivision of procurement requirements can be effectively

countered. These provisions are very specific in describing how contracts must be valued for purposes of determining the impact of the agreement's thresholds. They even go beyond those specified in the GATT Code.

6. In a slight break from its prohibition on foreign ownership of energy resources, Mexico agreed under NAFTA to allow contracts for oil and gas drilling services to include "performance clauses", for example, a clause giving a foreign drilling service firm a share of the oil produced from a well if it exceeded a certain volume.
- Is there anything in NAFTA that would actually require Mexico to put performance clauses in the contracts they enter into with U.S. firms?
 - If Mexico did give U.S. firms performance clauses in their contracts, it appears that the only way such clauses could help U.S. firms gain ownership interest in the Mexican oil industry would be if they gave U.S. firms a share of the oil or gas found. How likely is this to happen?

Answer: The agreement does not actually require performance clauses but does encourage Mexican energy parastatals to make use of incentive fees to enhance the pay-off to contractors for performing better than is required by minimum contract requirements. The point to keep in mind is that the possibility for U.S. firms to negotiate performance clauses provides these firms with an opportunity for the first time to obtain access to oil and gas resources in Mexico.

7. Critics of NAFTA suggest that state governments may be compelled to maintain procurement policies and practices that conform to the requirements of the agreement.
- Are there any instances in which you can envision NAFTA procurement laws prevailing over state laws?
 - What language in the agreement specifically precludes NAFTA from preempting state procurement laws?
 - Can states participate in the dispute resolution process? If not, how do states protect their interests?

Answer: Critics who suggest that the NAFTA procurement chapter in its present form compels the states to do anything have not read the agreement very carefully. This agreement, like other international trade agreements on government procurement, sets forth obligations only with respect to covered procurements, as defined by a country's annex to the agreement. Annex 1001.1a-3

only notes that coverage of subcentral procurements will be the subject of consultations in accordance with Article 1024. Article 1024 states that subcentral procurement shall be a subject of future negotiation, which shall commence either upon the completion of a new GATT agreement that covers such procurements or by December 31, 1998, whichever is earlier. Prior to this future negotiation, there can be no issue of dispute resolution with respect to state procurement. No language is necessary to specifically preclude preemption of state procurement laws since the agreement itself does not cover any state procurement.

8. The U.S. and Canada are signatories of the GATT Agreement on Government Procurement (the Code), a multilateral trade agreement governing international procurement, but Mexico is not. An earlier draft of the agreement stated that NAFTA's obligations would prevail in the event of any inconsistency with the Code.

- Does this provision still exist anywhere in the agreement?
- In the event of inconsistency between the Code and NAFTA, which agreement would prevail?
- What language in the agreement specifically sets out the obligations of NAFTA vis a vis that of the GATT Government Procurement Code?
- How will NAFTA effect the scope and coverage of the Code?

Answer: The agreement has no such provision. The NAFTA procurement chapter and the Code are meant to complement one another. While there are significant areas of overlap between the two agreements, the NAFTA goes beyond the Code by including Mexico, as well as areas of procurement that are currently under negotiation in the Code, like services, construction, and government-owned enterprises. In any dispute between the U.S. and Mexico, the NAFTA would prevail since Mexico is not a signatory to the Code. As to a dispute between the U.S. and Canada over a procurement that is covered by both agreements, the NAFTA would prevail only to the extent that it requires a higher level of discipline than the Code. For the most part, this would not occur since the NAFTA text was negotiated on the basis of the text being negotiated in the Code. In some areas, however, like bid protest, the NAFTA is likely to require more than the Code. In these situations, the parties would be bound by the higher disciplines in the NAFTA.

II. IMPACT ON PUBLIC SECTOR ACTIVITIES

9. President Clinton has indicated that the NAFTA implementing legislation will include provisions for comprehensive worker adjustment assistance. The Administration has also committed to seeking additional environmental funding to clean up specific sites and for infrastructure improvement.
- Please describe briefly the Administration's dislocated worker assistance program. How does its development coincide with the side agreements? With the implementing legislation?
 - What will these programs cost? How will they be financed?
 - Have non-taxpayer sources of funding been identified to conduct the environmental cleanup needed at the U.S.-Mexico border area? What is the anticipated cost of this cleanup?

Answer: The Administration is fully committed to a new comprehensive, worker adjustment program that will seek to ensure that no job loser will face unaided the challenge of adapting to economic change, whatever its cause.

The program will make available and provide funding for a wide range of effective re-employment services to all dislocated workers, whether the cause of dislocation is defense downsizing, technology, trade, or any other source of economic turbulence. The re-employment services to be offered include job search assistance, quality training, and income support.

The Administration will soon introduce legislation to authorize this new comprehensive program and will seek Congressional approval this year. I will, therefore, defer on the details of this proposal at this time.

Regarding border clean-up, during the campaign, the President noted the pressing need to address environmental problems along our southern border. The Administration is actively engaged in the issue, from the National Park Service, to USDA's Rural Development Agency, the National Fish and Wildlife Service and public health and housing agencies. The Environmental Protection Agency is coordinating the effort to build on and improve activities under our bilateral border plan.

However, a key to improved environmental conditions along the border is finding the resources to address the problem. As Ambassador Kantor announced on August 13, Mexico and the United States have proposed the creation of a new Border Environment Administration. The goal of the new institution will be to marshal resources to address the pressing needs for wastewater treatment, drinking water, disposal of municipal solid wastes and

possibly other infrastructure needs. Local input to the decision-making process will be a prime aspect of the new institution. The Border Environment Administration will certify projects for eligibility for loans from an associated financing facility that will raise capital primarily from the private market. The Department of the Treasury and others are consulting with Congress, the states and the public as these negotiations proceed.

If we reject NAFTA, we lose the opportunity to put these unique cooperative institutions to work to tackle the significant environmental problems between our countries and in the border region.

10. NAFTA critics anticipate that claims for unemployment will rise and additional demands for job retraining, and health and social services will fall to a public sector with sharply depleted resources.

-- How do you respond to this criticism?

-- You have stated in testimony that NAFTA will not result in significant job loss, why then is it necessary to develop provisions for dislocated workers?

Answer: Although virtually every study shows NAFTA will produce a net gain in employment in the United States, there will be some workers who lose their jobs as a result of NAFTA. The consensus is that with NAFTA, an additional 200,000 jobs related to exports will be created in the U.S. by 1995. While the studies acknowledge that there will be some jobs lost in certain sectors, they agree that the jobs lost will be a relatively small number compared to the jobs that are lost in the United States overall, because of defense conversion, corporate downsizing, and technological change. This is true because Mexico's economy is only one-twentieth the size of ours and our tariff and non-tariff barriers are already low.

On September 1, 284 economists, including 12 of the living American Nobel laureate economists, wrote to the President saying:

While we may not agree on the precise employment impact of NAFTA, we do concur that the agreement will be a net positive for the United States, both in terms of employment creation and overall economic growth. Specifically, the assertions that NAFTA will spur an exodus of U.S. jobs to Mexico are without basis. Mexican trade has resulted in net job creation in the U.S. in the past, and there is no evidence that this trend will not continue when NAFTA is enacted.

Moreover, beyond employment gains an open trade relationship directly benefits all consumers.

We believe the critics are looking at the future through a rear view mirror. To the extent that there has been job loss to Mexico, it is precisely because of trade distortions in the current trade relationship with Mexico, which we seek to change through NAFTA.

11. I understand that "non-conforming" public services that governments wish to exempt from the agreement must be officially listed within two years.

- Please give me an example of a "non-conforming" public service. Please describe the process by which public services are exempted from the agreement.
- This only applies to existing services, how would we exempt a public service that we wish to expand? How would be exempt (sic) a new public service?
- What if the other signatories to the agreement object to the exemption of a particular public service?
- Doesn't this undermine the Administration's goals for health care reform?

Answer: The NAFTA does contain a requirement to list existing "non-conforming" measures in the Annexes. However, there are exceptions to this obligation. Under Article 1206, local governments are exempted from this obligation. More generally, public services are carved-out entirely from the NAFTA.

The right for a country to provide social welfare or public policy programs is not limited nor constrained by NAFTA. The United States will be able to continue to perform these functions, for example, social welfare, social security or insurance, health, child care, law enforcement and correctional services. (NAFTA Article 1201b.3). This paragraph also preserves the right of each party to provide public services or to perform public functions provided that it acts consistently with the obligations of Chapter 12.

In addition, the United States is not obligated to provide national treatment to Mexican or Canadian providers of "social services." The United States may also impose local presence requirements if it feels it necessary or require senior management of members of board of directors to be U.S. citizens. These "reservations" (exemptions) from the basic obligations of NAFTA are permanent and open-ended. Canada and Mexico have taken similar reservations.

NAFTA Annex II United States - Social Services - page II-U-5 reads:

The United States reserves the right to adopt or maintain any measure with respect to the provision of public law enforcement and correctional services, and the following services to the extent they are social services established or maintained for a public purpose: income security or insurance, social security or insurance, social welfare, public education, public training, health, and child care.

Finally, in Chapter 21 (General Exceptions), it is clearly stated again that parties may adopt or enforce measures relating to health and safety and consumer protection (Article 2101.2). The U.S. obligation to be non-discriminatory does not mean that we must in every instance accord exactly the same treatment to all NAFTA service providers. For example, a state may impose special requirements on Canadian and Mexican service providers if the requirements are needed to promote health and safety or to protect consumers.

Therefore, NAFTA does not stand in the way of the Administration's health care reform efforts.

III. NAFTA'S PRE-EMPTION OF STATE SOVEREIGNTY

12. Critics of the agreement predict a downward "harmonization" of social, economic and environmental standards to match the lowest prevailing standards.

-- What provisions in NAFTA ensure that state laws and regulations that are inconsistent with the interests of other signatories are not weakened?

Answer: NAFTA safeguards the right of the U.S. Government and our states to maintain and enforce strong environmental, health and safety standards, and NAFTA and the Supplemental Agreements contain provisions to encourage improved standards and enforcement throughout North America.

Next to arguments about possible job losses, no issue has been more emotional in the debate than the unfounded charge by opponents that NAFTA undermines the ability of the U.S. government, and the states, to establish and enforce their environmental, health or safety laws and maintain high standards. Opponents repeatedly raise the specter of Mexican fruits and vegetables covered with DDT or other prohibited pesticide residues, and wrongly suggest that we will not be able to stop their implementation.

The combination of disinformation and playing on people's fears

does NAFTA opponents no credit. NAFTA does not require the federal government to lower its environmental, health and safety standards. Indeed, NAFTA makes explicit that each government may establish the levels of protection for human, animal or plant life or health that the government considers to be appropriate and that any work under the NAFTA to make standards compatible among the three countries is to be done "without reducing the level of safety or of protection of human, animal or plant life or health, the environment or consumers." Moreover, under the NAFTA, state and local laws are free to differ from federal laws, and can be more stringent than those laws.

Another favorite scare tactic of NAFTA opponents is to claim that NAFTA will require us (or our states) to adopt international standards. In fact, the NAFTA explicitly provides, in Article 713, that a party can maintain measures more stringent than international standards.

NAFTA's critics have argued -- again incorrectly -- that the NAFTA automatically preempts state law that conflicts with the NAFTA's obligations. In fact, nothing in the NAFTA automatically preempts state law. For those few areas where the NAFTA negotiators considered that state measures might in fact be inconsistent with the NAFTA (investment and services provisions), the NAFTA provides a procedure for grand-fathering such measures. That is, if the procedures are followed, those non-conforming state measures in the investment and services areas will be exempted from NAFTA's obligations.

As stated above, we do not believe that there are existing non-conforming state measures related to environment, health and safety. However, even in the event that a NAFTA dispute settlement panel were to determine that a state law were inconsistent with the NAFTA, the NAFTA would still not preempt state law.

If we follow the pattern of the GATT and the U.S.-Canada Free Trade Agreement, the federal government's efforts to secure state conformity with the NAFTA are likely to be entirely cooperative. The Administration typically works very closely with the states involved in any dispute settlement proceedings, both before and after any panel consideration, in a cooperative effort to determine the best course of action. Although ultimately the federal government, through its Constitutional authority and implementing legislation, retains the authority to overrule inconsistent state law through legislation or civil suit, use of this authority has not been necessary in the nearly half-century history of the GATT or the five years that the CFTA has been in effect.

Finally, the NAFTA implementing legislation will ensure that there is no "private right of action" under the NAFTA that might

mean that states could face lawsuits by companies or individuals seeking to enforce compliance with the NAFTA or its supplemental agreements.

CHAIRMAN CONYERS' FOLLOWUP QUESTIONS - HONORABLE ANN HUGHES

I. GOVERNMENT PROCUREMENT

1. Mexico is allowed a ten-year transition period to come into compliance with the procurement provisions of NAFTA, as well as an annual set-aside of \$1 billion.
 - Given these exclusions, how is this agreement fair to U.S. manufacturers and service providers?
 - Doesn't the U.S. market provide disproportionately more opportunities to foreign suppliers?
 - How do we achieve a balance with this agreement?
2. This \$1 billion set-aside excludes a significant portion of the Mexican market from coverage under the agreement, and increases to \$1.2 billion after ten years.
 - What sectors are affected by this set-aside?
 - Why did we agree to exclude such a large portion of the Mexican market when so much of the U.S. market is open to competition? How does this compare to our agreement with Canada?
 - How is this fair to U.S. suppliers?
3. The agreement applies to procurement contracts by covered Federal departments and agencies of over \$50,000 for goods and services and \$6.5 million for construction services. For procurement contracts by government-owned enterprises the threshold for procurement coverage is \$250,000 for goods and services and \$8 million for construction services.
 - What percentage of the Mexican procurement market meets the criteria for the \$50,000 threshold for coverage?
 - How does this compare with Mexico? With Canada?
 - How do you anticipate small and minority businesses will be able to compete in a market with such a high threshold?
 - Given that so much of the Mexican procurement market is subject to this high threshold, doesn't this agreement best serve the interests of larger companies? At the same time, won't small businesses in the U.S. be faced with greater competition from Mexican suppliers?
 - Are we providing any additional assistance to small and minority businesses to enable them to compete in this new market? If not, why? If so, what agency is managing this program?

II. IMPACT ON GOVERNMENT ENTITLEMENTS AND PUBLIC SECTOR ACTIVITIES

4. You cited in testimony the CBO report which found that the net effect of NAFTA would be positive.

- Are you saying that there will, in fact, be some negative effect of the agreement?
- In what industries do you anticipate job loss?
- Are there regions of the country that will experience disproportionate job loss or wage reduction?
- Are there ethnic or minority groups that will disproportionately experience job loss or wage reduction?

5. President Clinton has indicated that the NAFTA implementing legislation will include provisions for comprehensive worker adjustment assistance. The Administration has also committed to seeking additional environmental funding to clean-up specific sites and for infrastructure improvement.

- Please describe briefly the Administration's dislocated worker assistance program. How does its development co-incide with the side agreements? With the implementing legislation?
- What will these programs cost? How will they be financed?
- If certain regions of the country and certain population groups are most likely to face job loss or wage reduction, isn't it true that in those same regions or groups there will be a corresponding loss of tax revenues?
- Won't this loss of tax revenues effect the quality and quantity of public services?

8. NAFTA critics anticipate that claims for unemployment will rise and additional demands for job retraining, and health and social services will fall to a public sector with sharply depleted resources.

- How do you respond to this criticism?



UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D C 20230

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HOUSE COMMITTEE ON
GOVERNMENT OPERATIONS

The Honorable John Conyers, Jr.
Chairman, Legislation and National Security Subcommittee
Committee on Government Relations
2157 Rayburn House Office Building
Washington, D.C. 20525

Dear Chairman Conyers:

Thank you for your letter containing follow-up questions on the testimony I presented to your Subcommittee. Enclosed are my responses to those questions within my purview. I have referred your questions on the details of the Administration's Worker Adjustment Assistance Program to the Department of Labor. You may expect a response from Geri Palast, Assistant Secretary of Labor for Congressional and Intergovernmental Affairs.

Sincerely,

Ann H. Hughes
Deputy Assistant Secretary
for the Western Hemisphere



I. GOVERNMENT PROCUREMENT

1. **Mexico is allowed a ten-year transition period to come into compliance with the procurement provisions of NAFTA, as well as an annual set-aside of \$1 billion.**

In 1990, Mexico's government procurement market was estimated to be worth almost \$19 billion. Under NAFTA, the majority of that Mexican procurement market is open to U.S. bidders immediately upon implementation of the Agreement. Not only is this a fair and balanced procurement agreement, it is extremely lucrative for U.S. firms.

Mexican federal government procurement will be open immediately. There is a ten-year transition period for PEMEX and CFE, Mexico's state-owned oil and electricity monopolies, construction and non-patented pharmaceutical procurement. However, fully fifty percent of PEMEX and CFE procurements are also open immediately.

NAFTA's government procurement provisions will for the first time secure guaranteed access to the Mexican Government procurement market for U.S. suppliers of goods and services. Currently, Mexico's government procurement market is essentially closed to U.S. suppliers. Mexican procurement policy promotes excluding foreign competition when Mexican goods or services are available. NAFTA reverses this policy and requires competition in Mexican procurement in key growth areas where U.S. suppliers are highly competitive. NAFTA also provides new procurement opportunities in some sectors where the U.S. market is declining and Mexico offers vital opportunities, such as oil and gas field equipment.

To secure access to this significant new market, the United States offers Mexican suppliers access to a U.S. market which is already open to foreign suppliers from signatories of the GATT Government Procurement Code (the Code), as well as Canadian companies under the U.S.-Canada Free Trade Agreement. For procurements covered by the Code, Mexican suppliers will have to compete with providers from many other countries who are already familiar with competitive procurement practices and firmly established in the U.S. market.

To ensure that the procurement provisions were balanced, the United States also insisted on exceptions to coverage ("set-asides") under NAFTA's procurement provisions. NAFTA explicitly allows for the continuation of the U.S. minority and small business set-aside programs, which reserve certain contracts for qualified U.S. suppliers. NAFTA also preserves other sensitive procurement for U.S. suppliers including the so called "Berry Amendment"-- Defense Department purchases of textiles, shoes and other goods and specialty metals.

2. **This \$1 billion set-aside excludes a significant portion of the Mexican market from coverage under the agreement, and increases to \$1.2 billion after ten years.**

While U.S. negotiators would have preferred not to have the Mexican set-aside, it was necessary to accept it in order to achieve U.S. goals, which included the retention of U.S. "buy American" programs, especially minority and small business set-asides.

Under the NAFTA government procurement agreement, each Party negotiated certain exceptions from coverage, or areas of procurement to be reserved for national suppliers. From the outset, U.S. negotiators resisted demands to open sensitive "buy American" provisions, such as U.S. minority business and small business set-asides, research and development, shipbuilding and repair, and transportation services. These areas have been preserved for competition by U.S. suppliers only.

The value of U.S. non-national security procurements covered by these negotiated exclusions is estimated to have been approximately \$35.2 billion in 1992. The small business set-aside alone was worth \$4.5 billion, and that figure does not include significant amounts of small business procurements done by the Department of Defense that are covered by the national security provisions.

Similarly, Mexico's negotiated "set-asides" permit Mexico to reserve for qualified national suppliers a small portion of certain contracts in sensitive areas. Mexico's non-sector-specific set-aside of \$1 billion (\$1.2 after ten years) may be allocated to procurement by any covered entity except Pemex and CFE.

Limits on the application of Mexico's set-aside among entities and sectors will ensure that substantial opportunities remain open for competition in all sectors. Furthermore, as the Mexican market continues to grow, U.S. suppliers will gain even greater access as the fixed dollar value of Mexico's set-aside will represent an ever smaller percentage of total procurement opportunities. While Mexico's set-asides have a finite dollar value attached, U.S. set-asides do not have a dollar value cap. Thus, U.S. set-asides will expand in value in proportion to the overall growth of the U.S. procurement market.

3. **The agreement applies to procurement contracts by covered Federal departments and agencies of over \$50,000 for goods and services and \$6.5 million for construction services. For procurement contracts by government-owned enterprises the threshold for procurement coverage is \$250,000 for goods and services and \$8 million for construction services.**

The Mexican Government plays a central role in the economy through government-owned enterprises (parastatals) in key industry sectors. Parastatal purchases represent the majority of Mexican Government procurement. Given the magnitude of most

procurements by these enterprises, we believe that the applicable threshold will capture most contracts of major interest to U.S. firms.

NAFTA government procurement provisions will guarantee the use of competitive and transparent procurement practices by these parastatals, a requirement not imposed on commercial enterprises. However, strict procurement procedures impose inefficiencies that, if applied to contracts of low dollar values, could jeopardize the commercial viability of the government-owned enterprises covered by the agreement, including the U.S. energy authorities and power administrations. Thus, the thresholds were established to maximize access for U.S. firms, including small and minority businesses, while at the same time ensuring the efficient use of resources by U.S. government-owned enterprises.

NAFTA's thresholds will not exclude U.S. small and minority owned businesses from Mexico's procurement market. These firms are capable of competing for Mexican contracts at and well above the threshold levels. For example, the following U.S. small and minority-owned firms have won contracts in Mexico that are worth far more than the threshold levels established by NAFTA¹:

- o JEFA International, Inc. of Plano, Texas, is a Native American-owned radio telecommunications service provider with annual sales of \$8.5 million. In addition to providing equipment for the telecommunications industry, the company provides a full range of engineering and technical services. JEFA recently won a multi-million dollar, multi-year contract in the private sector with Teléfonos de México's Telcel cellular company to engineer and install the cellular microwave interconnect system for several Mexican cities. The agreement will allow JEFA to increase the number of its U.S. employees by 10 people in 1992 and an additional 12 people in 1993.
- o Control Module, Inc. (CMI), of Enfield, CT, is a leading manufacturer of microprocessor-based "barcode" automatic identification equipment. CMI won a bid in December 1990, to supply Servicios por Cupones, a private firm administering several of the Mexican Government's food distribution programs, with 16,500 "credit card" validation terminals. In March 1991, the final shipment of the product was sent to Mexico. The value of the contract exceeded \$8 million. The customized terminals manufactured by the 105-employee company will be used to modernize Mexico's distribution system of food items to needy recipients. Each recipient is issued a "credit card" to

¹The contracts cited in these examples would not be covered by the NAFTA procurement provisions. They are provided as examples of the types of procurement that U.S. small and minority-owned firms are capable of winning. Because Mexico's procurement market is currently closed, examples of U.S. businesses winning such contracts are limited.

bring to store owners for his or her daily allotment of tortillas. When the store owners place the cards into the validation terminals, a signal tells them if the daily allotment has already been picked up.

To assist small businesses in taking advantage of government procurement provisions, NAFTA establishes for the first time a joint committee, comprising representatives of the Parties, to promote procurement opportunities for small businesses. We are confident that through this mechanism meaningful opportunities will be made available for small business.

II. IMPACT ON GOVERNMENT ENTITLEMENTS AND PUBLIC SECTOR ACTIVITIES

4. You cited in testimony the CBO report which found that the net effect of NAFTA would be positive.

The United States Government stands by the numerous economic studies that have been done of the potential effects of the NAFTA. Every study that uses credible economic modeling methods has demonstrated that NAFTA will result in a net increase in jobs in the U.S. economy. It is possible that this net increase will be the result of jobs lost in one sector of the economy being replaced with more jobs in another sector.

Studies have indicated that the apparel, fruit and vegetable, household glass, broom corn and ceramic tile industries are vulnerable to job loss. This does not mean that job loss will necessarily occur. Long phaseout periods and built in safeguards in the NAFTA serve to ensure adequate time for these industries to adjust.

The number of jobs that could potentially be lost due to NAFTA is quite small compared to the overall turnover of jobs in the U.S. economy--the CBO estimates that job dislocation due to NAFTA over a ten year period would be on the order of a mere one percent of what we experienced in the 1980's.

In its February 1991 study, the International Trade Commission stated that, while a free trade agreement with Mexico would have a positive, though small, effect on the overall U.S. economy "it is unlikely that an FTA would have a significant positive or negative effect on the economy of any U.S. region." Based on the ITC analysis, we do not expect that regions of the United States will experience disproportionate job loss. We do not expect any downward pressure on wages at all from the NAFTA.

Any potential job loss in the United States would be spread out both by industry and by region. We do not expect any ethnic or minority group to experience disproportionate job loss due to NAFTA.

5. **President Clinton has indicated that the NAFTA implementing legislation will include provisions for comprehensive worker adjustment assistance. The Administration has also committed to seeking additional environmental funding to clean up specific sites and for infrastructure development.**

Questions regarding the Administration's worker adjustment assistance program have been referred to the Department of Labor.

As noted above, we do not expect either specific regions or specific population groups to be disproportionately affected by NAFTA. Therefore, no loss of tax revenues are expected. On the contrary, NAFTA's positive effect on the United States economy should result in healthier local economies that generate increased tax revenues.

6. **NAFTA critics anticipate that claims for unemployment will rise and additional demands for job retraining and health and social services will fall to a public sector with sharply depleted resources.**

The critics are wrong. NAFTA will generate jobs in the United States economy. Worker retraining programs are necessary to assist anyone who is being displaced due to a restructuring of the United States economy, not just ones who may be displaced by NAFTA. The Administration will submit a comprehensive worker adjustment assistance act that will provide the resources for worker retraining. NAFTA will help to jumpstart the U.S. economy, resulting in fewer, not greater, demands on the resources of our state and local governments.

U.S. Department of Labor

Assistant Secretary for
Congressional and Intergovernmental Affairs
Washington, D.C. 20210

September 27, 1993

The Honorable John Conyers
Chairman
Committee on Government Operations
U.S. House of Representatives
Washington D.C. 20515

Dear Congressman Conyers:

I am writing in response to questions regarding the Administration's worker adjustment program submitted to Ann Hughes, Deputy Assistant Secretary for the Western Hemisphere, following your House Committee Hearing on NAFTA.

The Department is currently developing a workforce investment strategy which includes a comprehensive worker adjustment program, a one-stop career center system, and a national labor market information system. However, this legislation proposes to respond to all displaced workers regardless of the cause of their dislocation. It is a comprehensive strategy that goes far beyond NAFTA. This revitalized system of employment and reemployment services will assist American workers who are in need of information, new jobs, or new skills to take full advantage of the emerging opportunities and challenges of today's workforce. It seeks to integrate the best aspects of the current employment and training system with the most promising innovations in management and customer driven service design. Ease of access, customer-driven design principles, high quality service delivery and a clear federal-state-local governance structure are the cornerstones of this proposal.

Retraining and re-employment services will be provided to workers who have permanently lost their jobs or received such notification. Individuals will be given the opportunities and resources to find another appropriate job as quickly as possible, and, when necessary, to enhance their skills in order to secure employment that will protect their earnings. Income support will be provided to dislocated experienced workers who enter retraining. A primary objective of the comprehensive worker adjustment proposal is to consolidate several categorical dislocated worker programs into one so that permanently laid off workers can be aided promptly regardless of the reason for job loss.

-2-

Attached is a copy of draft legislative specifications. If you have any questions regarding the initiative, please feel free to contact me or have a member of your staff contact Pat Fahy in my office at 219-6141.

Sincerely,

A handwritten signature in dark ink, appearing to read "Geri Palast", written over a circular stamp.

Geri Palast
Assistant Secretary
for Congressional and
Intergovernmental Affairs

Enclosure

U.S. Department of Labor

Employment and Training Administration
200 Constitution Avenue, N.W.
Washington, DC 20210

AUG 31 1993

Dear Interested Parties:

Enclosed for your review and comment is the most recent version of a legislative framework for a workforce investment strategy which includes a comprehensive worker adjustment service, a one-stop career center system, and a national labor market information system. As this proposal is developed further, we are interested in your feedback.

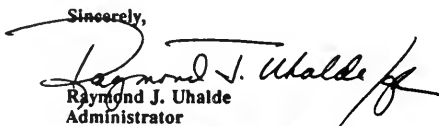
This draft proposal describes a revitalized system of employment and reemployment services for American workers who are in need of information, new jobs, or new skills to take full advantage of the emerging opportunities and challenges of today's workplace. It seeks to integrate the best aspects of the current employment and training system with the most promising innovations in management and customer driven service design. Ease of access, customer-driven design principals, high quality service delivery and a clear federal-state-local governance structure are the cornerstones of this proposal.

We believe that the proposed system will provide workers throughout the country with a more responsive and accessible set of opportunities to enable them to meet workforce demands and their own needs quickly and effectively. A primary objective of the comprehensive worker adjustment proposal is to consolidate several categorical worker programs into one so that permanently laid off workers can be aided promptly regardless of reason for job loss.

The development of a nationally supported labor market/occupational information system will provide the critical information base on which individuals and employers can make informed choices and develop strategies to achieve their employment goals.

We invite you to review and comment on this draft of the proposal. We consider your input critical to the successful development of this legislative package. Therefore, we would appreciate your written comments no later than September 13, 1993. If you have questions on this package, please direct them to Grace Kilbane on (202)219-5257 or Mary Silva on (202)219-8550.

Sincerely,



Raymond J. Uhalde
Administrator
Office of Strategic Planning
and Policy Development

Enclosures

THE WORKFORCE INVESTMENT STRATEGY EXECUTIVE SUMMARY August 30, 1993

The Workforce Investment Strategy is a three-pronged approach to creating a world-class system for supporting and strengthening the American workforce. The three elements of the strategy are:

- ✓ **Re-employment and Retraining**, through the Comprehensive Worker Adjustment Services
- ✓ **Access**, through the One-Stop Career Center Network
- ✓ **Information**, through the National Labor Market Information System

Re-employment and Retraining. Comprehensive Worker Adjustment

Services will provide workers who have permanently lost their jobs or received such notification with the opportunities and resources to find another appropriate job as quickly as possible, and, when necessary, enhance their skills in order to secure employment that will protect their earnings.

- **Eligibility** A single standard of eligibility to encompass all permanently laid-off workers without regard to cause of dislocation will be established.
- **Authorized Services** Services provided will include: outreach to encourage early enrollment for reemployment services; basic reemployment services, such as initial intake and assessment, career exploration and guidance, and job search skills training; highly intensive services for those who cannot find jobs through the basic services; education and training; retraining support for workers in training whose UI benefits have expired; relocation allowances; and support services, such as child care and transportation.
- **UI Flexibility** States will be allowed to offer self-employment support, reemployment bonuses, and short-time compensation through the UI system.
- **Authorization and Allotment of Funds** Seventy percent of the funds will be allotted to the States using the current EDWAA formula. The remainder will be reserved by the Secretary for national activities and discretionary grants.
- **Disaster Relief Employment Assistance** Disaster relief assistance will be implemented within national discretionary account authority, following the requirements outlined in Title IV, Section J of JTPA.

- **Governance** Federal responsibilities include operation of a national discretionary grant program to address large-scale dislocations, conducting planning and evaluation, developing performance measures and standards, and promoting capacity-building. State responsibilities include designating substate areas and administrative entities, establishing state-level Dislocated Worker Units for rapid-response, establishing program support and capacity-building, and monitoring the statewide system. At the local level a structure will be in place to provide policy guidance and program oversight. The local governing body will establish Worker Adjustment Career Centers, through which *all* worker adjustment services will be delivered.

Access. One-Stop Career Centers will be created as part of a national system within which all States will have the opportunity to develop Statewide networks of One-Stop Career Centers. The One-Stop Career Centers will provide any job seeker, student, or employer with streamlined access to a comprehensive menu of state-of-the-art, user-friendly, employment, education, and training information and services. The One-Stop Career Center System will be customer-oriented, outcome-based, and will provide flexibility for State, local, and individual decision-making.

This proposal provides a base which will enable States and local communities to implement One-Stop Career Centers in a flexible manner to ensure one-stop access to all DOL employment and training programs (*at a minimum*) for all individuals and employers. Although not proposed for legislation, a Federal interagency council will be established by the President to broaden Federal coordination with other Federal employment, training, and education programs.

- **General Requirements** There are six essential elements which must be included in every One-Stop Career Center: universal access; a standard menu of core services; sole funded deliverer of basic core services for DOL employment assistance programs; high-quality, customer-driven, outcome-oriented services; high integrity and accountability; and an integrated governance structure.
- **Implementation** Resources available to States wishing to implement the One-Stop Career Center System are: State Planning and Development Grants, State Implementation Grants, and Waivers.
- **Core Services** Each Center will provide the same set of core services at no charge. Basic services will be available to all individuals, and include customer oriented information, filing initial UI claims, DOL's Veterans' employment and training services, basic assessment, career exploration, eligibility review for all workforce development programs, job search assistance, and employer services. More intensive services will be made available to eligible dislocated workers.

- **Optional Services** Additional services may be provided through One-Stop Centers at State and local discretion. These may include DOL or other Federal, State, or locally-funded program services. Fees may be charged for services not paid for by other funding sources.
- **Provision of Services** Core basic services must be accessible at the Centers, and staff must be available to assist customers. A wide variety of self-accessed technology will also be used in the Center and around the community (such as kiosks or out-stationed computer terminals).
- **Chartering One-Stop Career Centers** Each One-Stop Career Center will receive a charter, or "Seal of Approval," certifying that rigorous Federal, State and local qualifying criteria have been met. All public and private entities, including consortia, may apply for a limited number of charters. Chartered Center operators will compete for customers.
- **Governance** Federal responsibilities include conducting planning and oversight, establishing performance measures, and developing a national logo for the charters. State responsibilities include establishing Statewide networks of One-Stop Career Centers, establishing a Human Resources Investment Council, designating labor market substate areas, establishing standards for the Federal performance measures, and, with local elected officials, establishing a chartering process. Local responsibilities include establishing a Workforce Investment Board (WIB), with responsibilities for strategic planning and evaluation for all workforce investment programs, and for establishing quality assurance and customer feedback mechanisms.

Information. The National Labor Market Information System will provide the information infrastructure to the Workforce Investment System. Using state-of-the-art technology, information on labor markets, career and educational opportunities, and quality of services will be developed and made widely available throughout the system.

- **Funding** National grants will be provided to States and other entities to enhance current systems and to develop new applications. Funds will be pooled from existing employment and training programs to improve the scope and quality of services. Other Federal funds supporting labor market information will be authorized to be made available for this purpose.

WORKFORCE INVESTMENT STRATEGY **INDEX AND SUMMARY OF COMMENTS**

The following is an index to the key sections and topics in this August 31, 1993 draft version of the Department's Workforce Investment Strategy. To facilitate the Department's analysis of responses to the proposed delivery system, governance concepts and funding mechanisms -- as well as the new customer service emphasis and approaches embodied in the Worker Adjustment Services and One-Stop Career Centers -- commentators are encouraged to submit this summary sheet with their formal response checking the appropriate sections.

<p>Section I Findings and Purpose</p> <p>() Findings and Purpose</p> <p>Section II Worker Adjustment Services</p> <p>() A. Statement of Purpose</p> <p>B. Summary of Basic Program Elements</p> <p>() Participant Eligibility</p> <p>() Outreach</p> <p>() Individualized Services</p> <p>() Comprehensive Reemployment Services</p> <p>() Support Services</p> <p>() Quality Training</p> <p>() Retraining Support</p> <p>() Program Integration</p> <p>() Performance Accountability/Outcomes</p> <p>() C. Eligibility</p> <p>D. Authorized Services</p> <p>() Services to Eligible Workers</p> <p>() Services to Eligible Workers Who Cannot Find Jobs Through Basic Employment Services</p> <p>E. UI Flexibility</p> <p>() Self Employment</p> <p>() Reemployment Bonuses</p> <p>() Short-Time Compensation</p> <p>() F. Authorization</p> <p>() G. Disaster Relief Employment Assistance</p> <p>H. Governance</p> <p>() Federal Roles and Responsibilities</p> <p>() Governor/State Roles and Responsibilities</p> <p>() Local Roles and Responsibilities</p> <p>() I. Conditions</p> <p>() J. General Administrative and Program Provisions</p>	<p>Section III One-Stop Career Centers</p> <p>() A. Statement of Purpose</p> <p>() B. Statement of Intent</p> <p>() C. General Requirements</p> <p>D. Implementation of the One-Stop Initiative</p> <p>() State Planning and Development Grants</p> <p>() State Implementation Grants</p> <p>() Waiver Requests</p> <p>() Approval Criteria</p> <p>() E. Core Services (Introduction)</p> <p>() F. Optional Services</p> <p>() G. Service Provision</p> <p>H. Performance Measures (Introduction)</p> <p>() General Prerequisites</p> <p>() Career Center Standards</p> <p>I. Chartering One-Stop Centers</p> <p>() What is a Charter</p> <p>() Entities Eligible to Receive a Charter</p> <p>() Chartering Criteria</p> <p>() Who Issues the Charter</p> <p>() Frequency of Chartering</p> <p>() Funding</p> <p>() J. Transition Provisions</p> <p>K. Governance</p> <p>() Federal Roles and Responsibilities</p> <p>() Governor/State Roles and Responsibilities</p> <p>() Local Roles and Responsibilities</p> <p>() L. Waivers</p> <p>() M. Administrative Provisions</p> <p>() N. Authorization and Allotment of Funds</p> <p>Section IV National Labor Market Information System</p> <p>() A. Statement of Purpose</p> <p>() B. Funding</p> <p>() C. System Characteristics</p> <p>Section V Additional Provisions</p> <p>() Additional Provisions</p>
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THE WORKFORCE INVESTMENT STRATEGY

A Comprehensive Proposal for Worker Adjustment Services and One-Stop Career Centers

August 31, 1993

SECTION I FINDINGS AND PURPOSE

- ▶ Growing world trade and advances in technology are creating vast and far reaching changes in the U.S. economy. These changes hold the promise of broad economic growth as well as an increase in the number of higher-skill, higher-wage jobs for Americans. If Americans are to take advantage of these economic shifts, they will need to constantly upgrade their job skills and work-related knowledge.
- ▶ This economic restructuring also is forcing some Americans to change jobs and even occupations. The number of structurally unemployed workers, i.e., those who have lost their jobs and are not likely to be recalled to their old jobs or find similar ones, is rising. These Americans need quick and easy access to effective employment services and information to help them get back to work. They need a way to master the confusion and complexity of the numerous Federally-funded employment and training programs in order to identify the resources best suited to help them successfully manage their careers.
- ▶ To serve its working people and provide for future economic growth, America requires a comprehensive worker adjustment program delivered through a network of Career Centers and supported by a high quality labor market information system. Governors will have the option of developing a network of One-Stop Career Centers through which Labor Department-funded employment and training programs will be provided. This initiative recognizes and builds on many promising innovations already underway across the country.
- ▶ Specifically, the workforce investment strategy will:
 - Consolidate several categorical worker training programs into a single comprehensive worker adjustment program and give the Unemployment Insurance system increased flexibility to encourage workers to find reemployment quickly and to help some workers start new enterprises.
 - Offer Governors the opportunity to develop or expand Statewide networks of One-Stop Career Centers to provide workers and students with a single point of access to labor

market and career information, education and training programs, skills assessment, job placement and other employment services, and to provide local employers with worker recruitment and related services.

- Those committed to One-Stop Career Centers will, in conjunction with local elected official(s), establish a governance structure that brings together employers, labor organizations, education and training institutions, government agencies, and others to develop and oversee workforce investment strategies responsive to the needs of workers, employers, and area economies.
- Establish a nationwide labor market information system to improve people's capacity to make decisions on jobs, careers, and education and training programs.

SECTION II WORKER ADJUSTMENT SERVICES

A. STATEMENT OF PURPOSE

- ▶ The goal of the program is to provide workers who have permanently lost their jobs with the opportunities and resources to find another appropriate job as quickly as possible and, when necessary, enhance their skills in order to secure employment that will protect their earnings. The program will be customer-oriented, outcome-based, and provide flexibility for local decision-making.
- ▶ The objectives of the program are to:
 - Provide permanently laid-off workers -- regardless of reason for job loss -- access to a comprehensive system of services and resources designed to help them become reemployed in a timely manner.
 - Identify and refer such workers to appropriate services as soon as possible.
 - Provide programmatic flexibility so that services can be tailored to individual needs. Provide individual workers in need of services the opportunity to choose service providers.
 - Reemploy workers in jobs with wages comparable to their preceding job, or with career paths that lead to wages comparable to their preceding job.
 - Collect and maintain data on program quality that provides dislocated workers and program staff with the information needed to choose effective education, training and support service providers.
 - Provide income support so that experienced workers in training have the financial means to complete such training.

B. SUMMARY OF BASIC PROGRAM ELEMENTS

- ▶ **Participant eligibility.** The program will establish a single standard of eligibility to encompass all permanently laid-off workers without regard to cause of dislocation, including those resulting from corporate restructuring, international trade agreements (e.g., NAFTA, GATT), defense downsizing, and environmental requirements (e.g., spotted owl endangered species designation).
- ▶ **Outreach.** The program will make significant investments in participant outreach so that a high percent of eligible workers will receive services, and focus on reducing the period of unemployment and facilitating each worker's early return to appropriate employment. Funds will be earmarked for use in strengthening rapid response, conducting UI profiling to identify workers needing active assistance, and developing improved labor market information.
- ▶ **Individualized service.** Services will be tailored to the needs of the individual worker and to the requirements for obtaining an appropriate job in the local labor market or other labor market to which the individual is willing to relocate.
- ▶ **Comprehensive reemployment services.** The program will make basic intake, assessment and testing, career exploration and guidance, job search skills training, and job referral, job development, and placement assistance services available to all eligible workers. More intensive assistance also will be provided to such workers who are unable to secure appropriate jobs through those basic reemployment services. The intensive services will include: diagnostic assessment, career planning, development of individual reemployment plans, personal counseling, and referrals to appropriate education, training and support services.
- ▶ **Support services.** Transportation, child care, and other appropriate assistance will be available to eligible workers based on needs documented in the reemployment plan.
- ▶ **Quality training.** The program will expand and improve the quality of education and training options which are available to individual workers. Workers, with the assistance of career counselors, will identify the most effective reemployment strategy from an array of competing programs and organizations and make an informed choice

regarding the provider of training. All education and training providers will be required to provide performance-based information to ensure that workers, and counselors, can make informed decisions.

- ▶ **Retraining Income support.** Retraining income support payments will be available to experienced workers with a demonstrated attachment to the workforce while they are enrolled in training. This support will make it possible for such workers to complete longer-term training. Retraining support payments will extend for up to 18 months beyond the maximum 26 weeks of income assistance now available through the unemployment insurance system.
- ▶ **Program Integration.** The program will be organized and operated through Workforce Adjustment Career Centers (WACCs).
- ▶ **Performance accountability and outcomes.** The program will operate under a governance structure with strong accountability to workers, employers, and the local community for quality service and outcomes. The program will have a mechanism to obtain regular feedback from employers and workers who receive services from the program and for using this feedback to make decisions regarding the allocation of resources and operation of WACCs.

C. ELIGIBILITY

The following categories of workers would be eligible for the program:

- ▶ All workers who have been permanently laid-off from their employer and who are unlikely to be reemployed in the same or a similar occupation, including certain part-time and seasonal workers.
- ▶ All workers who have received a notice of a permanent lay-off
 - Including workers who have not received a notice but who are employed at a facility for which the employer has made a public announcement of planned closure of such facility, e.g., military base, except for those workers at the facility who are likely to remain employed with the employer at another location or who will retire on or before separation.
 - Workers receiving such notice will be eligible for assistance beginning one year prior to the scheduled closure date.

- ▶ Long-term unemployed individuals with limited opportunities for employment or reemployment in the same or similar occupation in which they were previously employed.
 - "Long-term" is to be defined by the Governor, but shall be a period of at least 26 weeks duration.
- ▶ Self-employed (including farmers or ranchers) individuals who are unemployed as a result of general economic conditions in the community in which they reside or because of natural disasters, and are seeking employment alternatives.
- ▶ As under current law, Governors at their option may serve displaced homemakers provided that this does not adversely affect other dislocated workers.

D. AUTHORIZED SERVICES

- ▶ High quality, consumer-oriented labor market and worker reemployment services information. This information will be available for all eligible workers in a variety of formats using available technology.
 - Available information services will include data on: job openings; employment trends; local occupations in demand and the earnings and skill requirements for such occupations; performance of local education, training and job placement organizations; and eligibility requirements for relevant federal, State and local programs.
- ▶ Outreach to encourage early enrollment for reemployment services offered through Worker Adjustment Career Centers.
 - Funds will be authorized (in addition to funds authorized in the UI program) to conduct UI Profiling to identify UI applicants who share characteristics common to workers at risk of extended periods of unemployment. These workers will be immediately referred to Workforce Adjustment Career Centers for eligibility determination and appropriate reemployment services.
 - Rapid response services must be provided by States within 5 working days of receiving a WARN notice or some other

information that identifies a permanent layoff or plant closure of 50 workers or more. Governors will have the authority to identify circumstances for providing rapid response assistance in layoff situations with fewer than 50 workers.

- Rapid response assistance will: facilitate the establishment of Transition Assistance Committees with representatives of both the employer and the workers; coordinate the planning and provide technical assistance to support implementation of an adjustment plan; assist in the establishment of short-time compensation programs if a state option; and provide for on-site delivery of basic reemployment services as appropriate.

(1) Services to all Eligible Workers

- ▶ Basic Reemployment services, available to eligible workers through Workforce Adjustment Career Centers, include:
 - Orientation to available information and services;
 - Filing initial UI claims;
 - Eligibility review for all DOL-funded employment and training programs except UI, determination of dislocated worker eligibility, and referral as appropriate;
 - Preliminary testing and assessment of skills, interests and aptitudes;
 - Career exploration and guidance ;
 - Group-based counseling, including stress management and financial management , which shall be available for dislocated workers and for dislocated workers jointly with their spouses;
 - Job search skills training (including resume and interview preparation, workshops, and job clubs);
 - Job referral, job development and placement services;
 - Out-of-area job search allowances

- The out-of-area job search allowance for a worker shall not exceed an amount equal to 90 percent of the cost of necessary and reasonable out-of-area job search expenses, up to a maximum of \$800.
- A worker may not receive more than one out-of-area job search allowance.

[NOTE: comparable to TAA.]

(2) Services to Eligible Workers who Cannot Find Jobs Through Basic Employment Services

▶ **Intensive Reemployment Services**

- Diagnostic testing of skills and aptitudes and in-depth interviewing to develop appropriate employment goals and identify employment barriers;
- Individualized counseling and career planning;
- Assistance in the evaluation and selection of an appropriate provider of needed education, training and support services;
- Case management, follow-up, and support for individuals receiving education, training and/or support services;
- Reemployment bonuses through the UI system to eligible individuals in States which have this UI payment option.
- Preparation of a Reemployment Plan:
 - The Reemployment Plan will be an individual plan for a participant which shall include an employment goal, appropriate achievement objectives, and the appropriate combination of services for a participant to reach that employment goal.
 - The Reemployment Plan will be a strategy for reemployment developed jointly by the worker and the career counselor and signed by both parties.

- In order for individual workers to have sufficient time to evaluate and select optional providers of education and training services, the Reemployment Plan must be completed at least two weeks before the date on which the worker must be enrolled in an education or training program in order to qualify for retraining income support.
- Since the Reemployment Plan will be a basis for qualifying to receive education, training and support services, States will be required to establish an appeal process in the event of disagreement between the individual worker and the career counselor over the reemployment strategy.

► **Education and Training Services**

Education and training services will be available to workers who need new or higher-level skills to meet employer hiring requirements. Education and training services must include:

- Basic skills training, including remedial education and literacy training, through linkages when possible with locally available programs; and,
- Occupational skills training (classroom and on-the-job) including training to replace or update obsolete skills without which employment in emerging or high-skilled occupations would be unlikely.

Education and training services may also include:

- Entrepreneurial training, including entrepreneurial/ self-employment assistance to provide training and support to help individuals establish a business plan, and achieve linkages with sources of financing and technical assistance. (Individuals in this activity may qualify for self-employment allowances equal to UI payments in those States which choose to exercise this UI payment option.); and,
- Other appropriate, skills-based training (e.g., skills required for high performance workplace environments such as problem-

solving and teamwork, and skills related to the use of new technologies).

In order to receive these education and training services, an individual must have and follow a current Reemployment Plan, and the services must be necessary for the achievement of appropriate employment objectives.

Workers will be able to select education and training provider(s) from a broad listing of participating, qualified service providers. Providers will be required to supply quality-based performance information.

- Education and training services will be provided primarily on an individual referral basis through payments to the selected service provider.
 - Where a group of workers is identified that have similar needs and reemployment interests regarding available employment opportunities, a customized training program for these workers may be funded.
 - In some cases, localities may negotiate an appropriate training program with new providers that must be subsequently qualified.
 - Technical assistance will be provided to expand and enhancing the local service options by encouraging the creation and establishment of innovative service providers such as industry consortia to design and deliver customized training, and the development of linkages to computer-accessed learning programs.
- Retraining income support will be available for permanently separated tenured workers for each week they are making satisfactory progress in full-time training (other than on-the-job training).
- Full-time training under the program will be "approved training" for the purposes of determining continuing eligibility for UI benefits .
 - To be eligible to receive retraining income support, individuals must be:

- Eligible to receive unemployment compensation under the State's unemployment compensation system;

[NOTE: EDWAA allows needs-related payments to workers who are not eligible for UI.]

- Tenured workers, i.e., workers who were continuously employed with the layoff employer, not counting spells of temporary layoff, for the previous two years (including part-time and seasonal). For the purpose of this Section, individuals who have had multiple employers (over the previous two years) and are part of a multi-employer pension program or who are employed through a single hiring hall will satisfy the requirement of continuous employment with the layoff employer.
- Receiving basic reemployment services by the 8th week (or by the 6th week after becoming aware that a temporary layoff will be permanent) of the initial UI benefits period following a permanent separation, and are enrolled in education and training services by the 16th week (or by the 14th week after becoming aware that a temporary layoff will be permanent).

[NOTE: This is different from current provisions requiring enrollment in retraining by the 13th week of initial UI benefits period.]

- Retraining income support payments will commence once an eligible worker has exhausted his or her UI benefits.
- The period of eligibility for retraining support will be the time necessary to complete a training or education program under the worker's Reemployment Plan, but not more than 18 months. The 18 month period shall include any time reflected in extensions of UI benefits.
- The retraining income support payment will be equal to the individual's UI benefit payment, adjusted for earnings from part-time employment consistent with State UI policies. This will allow some individuals to work part-time while in training.

- Individuals in training who are not eligible for retraining support payments will be provided assistance in securing Pell grants and other forms of financial assistance.
- ▶ Relocation allowances will be provided to workers when necessary to move to a new area to take a job with a new employer if similar opportunities are not available within a reasonable commuting area.
 - The relocation allowance for an individual shall not exceed an amount equal to the sum of: 90 percent of reasonable and necessary expenses incurred in transporting the worker and the worker's family, and household effects, plus a lump sum payment equivalent to three times the worker's average weekly wage up to a maximum lump sum payment of \$800 per participant.
 - Relocation allowances shall only be paid to individuals with bona fide job offers in the area to which they are relocating.

[NOTE: comparable with TAA.]

- ▶ Support services will be available for participants, including those who do not qualify for retraining support, based on needs documented in the Reemployment Plan.
 - Funds may be used, where necessary, to provide dislocated workers dependent care, transportation, meals, health care, etc., to enable dislocated workers to participate in training and other intensive services.
 - Support services will be provided through direct payments to the individual worker or through payments to selected service providers.
- ▶ Skills upgrading for currently employed workers at risk of layoff, community adjustment planning and employer conversion/diversification/work restructuring may be made available under the Secretary's national reserve account.

[NOTE: Employer assistance services and community conversion planning assistance are currently authorized under the Defense Diversification Program.]

- Supplemental wage allowances for eligible workers, who are within a specified period of time of qualifying for retirement, who have obtained lower-paying jobs, in an amount not to exceed 50 percent of their UI benefit, limited to amount equal to 80 percent of previous wage, for a period not to exceed 52 weeks.

E. UI FLEXIBILITY

States will have the option of adopting three new approaches for providing benefits to unemployed workers who have the specific capabilities to take advantage of these approaches. These options are aimed at introducing flexibility into the basic program of UI benefit payments, and are designed to assist in leading workers to reemployment. Two of these options -- self-employment and re-employment bonuses -- will provide permanently laid-off workers with assistance and incentives for rapid re-employment. The third -- short time compensation -- will use benefit payments to avoid or delay layoffs. Administration of the benefits will continue to be the responsibility of the UI system.

(1) Self-Employment in Unemployment Insurance. Flexibility will be provided within the UI system to use benefit payments as allowances which support certain claimants in starting their own small businesses.

- Current UI law will be amended to allow these periodic allowance payments to permanently laid-off workers who indicate interest in and show potential for starting small businesses.
- Certain requirements will be established in legislation to assist the permanently laid-off worker in the successful establishment of a business while at the same time safeguarding the integrity of the UI Trust Fund. These will include:
 - Requirements for participation in business training and support service; and,
 - Assurances that the worker is engaged full-time in establishment of the business.

the equivalent of UI benefits, those enrolled in this program will not have to meet current UI requirements regarding work search, nor will they have to accept wage and salary jobs. In addition, earnings from self-employment will not be counted for UI eligibility purposes.

(2) Reemployment Bonuses. Certain unemployed workers will be offered reemployment bonuses, or incentive payments over and above regular benefit amounts only if they find new work within a specified number of weeks. Demonstration programs have shown that re-employment bonus programs are cost effective, and that participating workers found work sooner (in comparable occupations and at the same wages) than a control group.

- Requirements for State operation will be established which ensure against improper use of this flexibility option. These will include:
 - Bonus payments only after a period of employment, and only to those getting jobs with new employers; and
 - Payment of a multiple of the weekly benefit amount, only under the conditions of a Reemployment Plan, to individuals identified as permanently laid-off and in need of reemployment assistance.

(3) Short-Time Compensation. Short time compensation allows employers to reduce hours of employment for a large group of workers, rather than laying a smaller number of workers off. Workers on short-time compensation receive unemployment compensation for the reduced hours. Seventeen states currently operate short-time compensation programs.

All programs currently require establishment of employer plans which are approved by the State. These plans contain features which protect against the misuse of the program and govern its operation. These features include establishing limits on the number of hours compensated, and in some cases, continuing health and pension benefits.

This program was reauthorized in 1992 as part of the Emergency Unemployment Compensation program. The legislation is flawed, however, because it does not permit States to continue operating the present 17 programs as they are designed, and does not allow the Secretary to establish safeguards for program flexibility.

F. AUTHORIZATION AND ALLOTMENT OF FUNDS

- ▶ The program will be authorized for funding at such sums as necessary in Fiscal Year 1995, and each of the following three fiscal years.
- ▶ Of the amounts appropriated, 70 percent of the funds will be allotted to the States on a Program Year basis beginning on July 1, and 30 percent may be retained by the Secretary for national activities.

[NOTE: Under current law, 80 percent of the EDWAA formula for Title III of JTPA is allotted to the States and 20 percent is retained by the Secretary. When funds for EDWAA and other national programs authorized in Title III are combined (i.e., Defense Conversion and Clean Air), the allotment to the States is approximately 65 percent with 35 percent retained by the Secretary.]

- The current EDWAA allotment formula will distribute the funds among the States. No State shall be allotted less than 90% of its allotment percentage for the program year preceding the program year for which the determination is made. No State shall be allotted more than 130% of its allotment percentage for the program year preceding the program year for which the determination is made.
- Of the amount allotted to each State, the Governor may retain 30 percent [versus 40 percent under current law].
 - Not more than 15 percent of the retained amount will be available for State administration, coordination and oversight.
 - Not less than 50 percent of the retained amount must be used for outreach (including required rapid response and UI profiling), and the development and maintenance of a State and local labor market information system, including information on labor market conditions and

employment opportunities, and on qualified education and training service providers.

- The development and dissemination of consumer-oriented labor market and service provider information, and the provision of outreach, including rapid response services and UI profiling, are to be provided from funds reserved by the State.
- The remaining retained funds may be used by the Governor to make grants as necessary during the year to provide training and reemployment services for eligible workers dislocated as a result of plant closures and mass layoffs throughout the State.

[NOTE: Reduction of the allowed state reserve percent is intended to make money available upfront to substate areas. This does not change the state's authority to reallocate funds among substate areas based on actual expenditures. The 50% floor for outreach and information system activities reflects the increased importance of the activities and the state's essential role in insuring that they are effectively implemented.]

- The remaining 70 percent of the State's allotment must be allocated to the substate areas for provision of reemployment and training services to eligible workers. The Governor will prescribe the substate allocation formula, using and applying weights to the factors in the State allotment formula and such additional factors as the Governor deems appropriate.

[This changes the six required factors currently specified in EDWAA: (1) insured unemployment, (2) unemployment concentrations, (3) plant closing and mass layoff data, (4) declining industries, (5) farmer-rancher economic hardship data, and (6) long-term unemployment data.]

- ▶ Of the 30 percent that may be retained by the Secretary:
 - Not less than 70 percent will be available to make additional grants for worker adjustment assistance in response to large-scale dislocations resulting from such factors as plant closures or mass layoffs, business reorganization or restructuring, trade-

mass layoffs, business reorganization or restructuring, trade-related impacts (including NAFTA impacts), changes in technology or environmental requirements, and reductions in defense spending.

- The Secretary will have the flexibility to consider strategies and approaches that are customized to respond to specific dislocations, including early intervention in response to a public announcement of a base closure or plant closure prior to the receipt by the workers of individual notices of termination.
- Eligible grantees include States, substate entities, employers, employer associations, representatives of employees.
- Up to 15 percent may be used *[versus minimum of 10 percent currently]* for evaluation of program performance, research, and pilot and demonstration projects. Such projects may include employment and training of incumbent workers with limited skills or who are at-risk of layoff, wage insurance/wage supplements and other incentives for earlier re-employment, and employer-sponsored training in conjunction with efforts to avert a layoff or to introduce high-performance work organization systems.
- Up to 10 percent *[versus 5 percent currently, although the establishment of national MIS is a new provision]* may be used for:
 - Capacity building initiatives based on proposals submitted by the States. These funds will be used to support the expansion of service options at the local levels, including industry consortia delivering customized training programs, and regional and national training providers offering computer-accessed learning systems;
 - Staff development and training for Federal, State and local staff including members of State and local boards and vendor staff; and

- Technical assistance, including establishment of a national management information system to support program oversight and enhance service quality. A portion of the amount reserved will be used for collecting and analyzing statistical data on permanent layoffs and plant closures to be used at the State-level to trigger rapid response as well as for planning and substate allocation of resources.
- ▶ The Secretary will recapture excess unexpended formula funds annually (consistent with current policies and procedures) and use these funds for additional discretionary grants for worker adjustment assistance.

[Currently, recaptured funds are reallocated among the States from which funds are not recaptured.]

- The amount subject to recapture shall be the amount by which the unexpended balance of the State allotment at the end of a program year exceeds 20 percent of the allotment for that program year, plus the unexpended balance of the State allotment from any program year prior to the program year in which there is such excess.
- Recaptured funds shall be available for three program years, including the program year of their allotment.
- ▶ Limitations on use of funds
 - Of the funds allotted to States, and allocated to substate areas by formula, States and substate entities each may not spend more than 15 percent on administration.

G. DISASTER RELIEF EMPLOYMENT ASSISTANCE

Disaster relief assistance will be implemented within national discretionary account authority, following the requirements outlined in Title IV, Section J of JTPA.

- ▶ Title IV, Part J - Disaster Relief Employment Assistance

Section 499A. General Authority

(a) Qualification for Funds. - Funds appropriated to carry out the national discretionary account shall be made available in a timely manner by the Secretary to

the Governor of any State within which is located an area that has suffered an emergency or a major disaster as defined in paragraphs (1) and (2) respectively, of section 102 of the Disaster Relief Act of 1974 (42 U.S.C. 5122 (1) and (2)) referred to in this part as the "disaster area").

(b) Substate Allocation. -- Not less than 80 percent of the funds made available to any Governor under subsection (a) shall be allocated by the Governor to units of general local government located, in whole or in part, within such disaster areas. The remainder of such funds may be reserved by the Governor for use, in concert with State agencies, in cleanup, rescue, repair, renovation, and rebuilding activities associated with such major disaster.

(c) Coordination. -- Funds made available under this part to Governors and units of general local government shall be expended in consultation with --

- (1) agencies administering programs for disaster relief provided under the Disaster Relief Act of 1974; and
- (2) the administrative entity and the private industry council in each service delivery areas within which disaster employment programs will be conducted under this part.

Section 499B. Use of Funds

(a) Projects Restricted to Disaster Areas. -- Funds made available under this part to any unit of general local government in a disaster area --

- (1) shall be used exclusively to provide employment on projects to provide food, clothing, shelter, and other humanitarian assistance for disaster victims and on projects regarding demolition, cleanup, repair, renovation, and reconstruction of damaged and destroyed structures, facilities, and lands located within the disaster area; and,

- (2) may be expended through public and private agencies and organizations engaged in such projects.

(b) Eligible Participants. -- An individual shall be eligible to be offered disaster employment under this part is such individual is --

- (1)(A) eligible to participate or enroll, or is a participant or enrolled, under Title III of this Act, other than an individual who is actively engaged in a training program; or
- (B) eligible to participate in programs or activities assisted under section 401 or 402; and
- (2) unemployed as a consequence of the disaster.

(c) Limitations on Disaster Relief Employment. -- No individuals shall be employed under this part for more than 6 months for work related to recovery from a single natural disaster.

(d) Regulations. -- The Secretary shall prescribe such regulations as may be necessary to promote the fiscal integrity of programs conducted with funds made available under this part.

Section 499C. Definitions

As used in this part, the term "unit of general local government" includes --

(1) in the case of a community conducting a project in an Indian reservation or Alaska Native village, the grantee designated under subsection (c) or (d) of Section 401, or a consortium of such grantees and the State; and

(2) in the case of a community conducting a project in a migrant or seasonal farmworker community, the grantee designated under section 402(c), or a consortium of such grantees and the State.

H. GOVERNANCE

• **Federal Roles and Responsibilities**

- Execute a Partnership Agreement with each State and local elected official(s) for each Worker Adjustment Career Center to describe responsibilities at each level of government to support the delivery of high quality services to Center customers.
- Allot and recapture funds among the States.
- Operate a national discretionary grant program to address large-scale impacts and multi-State/industry-wide dislocations which are national in scope or for which need exceeds available resources.
- Conduct program planning and evaluation activities to support the effectiveness of State formula and national discretionary grant programs.
- Prescribe performance and general program standards for State and substate programs.
 - Performance standards may include follow-up employment rate, wage rate at specified period after leaving the program, and wage comparability rate at specified period after leaving the program, attainment of certification, customer satisfaction, and such other qualitative and quantitative measures (including attainment of national skills standards as they become available) prescribed by the Secretary.

- Operate a pilot and demonstration program to test innovative strategies for responding to worker dislocation.
 - Promote capacity-building, assist in the development of data collection and MIS systems, and provide technical assistance to State and substate entities.
- **Governor/State Roles and Responsibilities**
- Enter into a Partnership Agreement with DOL, local elected officials, and the Centers which describes roles, responsibilities, and expectations for each.
 - Designate substate areas for implementing the program, consistent with current law, after receiving any recommendations from the State Council. States and local elected officials are encouraged to make this designation to reflect the substate area's labor market in order to enable better planning, coordination, and better information regarding jobs and training.
 - Each existing Title II Service Delivery Area shall be included within a substate area and no service delivery area shall be divided among two or more substate areas.
 - In making designations of substate areas, the Governor shall consider:
 - the availability of services throughout the State;
 - the capability to coordinate the delivery of services with other human services and economic development programs;
 - the geographic boundaries of labor market areas within the State.
 - A percent of the appropriated funds -- e.g., 5 percent -- will be a set-aside for financial incentives to States and labor market areas which establish and maintain substate areas which meet "realistic labor market area."

- In conjunction with local elected official(s) in each substate area, designate a substate administrative entity or a substate fiscal agent. [See options under Local Role.] Local government entities represented by the local elected official(s) are liable for misexpenditures of program funds in the substate area.

The Governor, in conjunction with the local elected official(s) and the Private Industry Council(s) (PICs), chooses a method of competition for selecting the operators of the WACC which is best for the State and/or individual labor market area(s).

Examples of approaches include:

- The Governor or local entity puts out a competitive bid for an umbrella organization for that area -- e.g., will be responsible for the entire network of WACC's in the labor market area.
- The Governor or local entity, selects through a competitive process, several entities, which may be different organizations in the same local labor market, to operate the WACC.
- Establish a State-level Dislocated Worker Unit with clear responsibilities for rapid response following the receipt of WARN notices and other notifications of plant closures/layoffs.
 - Accept WARN notices and other information to identify layoffs affecting 50 workers or more;
 - Contact and on-site assistance with representatives of the employer and the affected workers within five days;
 - Establishment of Transition Assistance committees to plan and oversee the delivery of reemployment, education and training services to eligible workers (TACs should be comprised of a balanced mix of representatives of the employer, the affected workers, labor organizations, and the community as appropriate and

should be chaired by an individual who is neutral to the interests of the employer and the workers. The committee must provide a mechanism for the active participation of workers and labor organizations in planning and overseeing the delivery of services.)

- Development of an action plan for the provision of reemployment and training services to eligible workers, including group counseling and assessment, and labor market information.
- Development of agreements with Worker Adjustment Career Centers through the appropriate substate entities (Options 1 and 2) regarding the provision of reemployment and training assistance to eligible workers, including the establishment of employer site assistance centers. The Governor may use some of the funds retained by the State to operate such centers, but the State must ensure that such centers are operated in conjunction with the established Worker Adjustment Career Centers in the substate area.
- Establish and implement a process for development and approval of substate plans for the delivery of services within each substate area.
- Establish the following program support capabilities:
 - A capability for Statewide and labor market area collection and dissemination of consumer-oriented LMI and service provider information as part of the National Labor Market Information System;
 - Methods to coordinate the delivery of reemployment services with the administration of retraining support payments for eligible individuals in training through the State's UI system;
 - A performance measurement and accountability system that systematically collects data on Career Center and special project performance as measured by performance standards required by the Secretary and the Governor and

contained in a Partnership Agreement. Performance measures should include candid, unfiltered customer feedback information on the quality and effectiveness of services provided through Worker Adjustment Career Centers;

- Procedures for awarding grants as necessary during the year to provide training and reemployment assistance for eligible workers dislocated as a result of plant closures and mass layoffs throughout the State;
- A capability for UI profiling and referral of potential long-term unemployed workers to substate service entities for appropriate services;
- Allocation of and reallocation of funds to substate areas.
- Develop and publish a State Plan for public review and comment every two years that describes management of the State's comprehensive worker reemployment delivery system.
- Establish a State and substate system for qualifying providers of education and training services, including the collection and maintenance of capability and performance information on such providers.
- The State will require the annual publication of outcome-based performance information by each service provider to allow workers to make an informed choice among providers. This may include information such as: the percentage of students who completed their planned course of study, the percentage of students who found a job in a training-related occupation and the wages paid, and licensure rates. Once national skills standards have been identified and established, education and training providers will be required to report the percentage of students who mastered necessary competencies, as well, and were certified.
- The State will establish procedures for the sanctioning of service providers that do not comply with Federal or State laws, refuse to provide accurate and timely

performance information, or fail to meet minimum performance standards. The State will maintain an appeals process for service providers that challenge such sanctions.

- Establish a capacity building program, accessing funds reserved to the Secretary through the submission of applications, to:
 - Provide standards for appropriate program staff competencies and training to meet those standards, including especially case-management counseling, job development and employer assistance skills.
- Monitor all State and substate program activities, including national discretionary grant projects.
- Prepare and publish an Annual Assessment of Worker Reemployment based on employer surveys and program results which would identify current skill demands and projected growth, assess the ability of available training to meet employer needs, and recommend program adjustments.

► **Local Roles and Responsibilities**

- Pursuant to the agreement between the Governor, the local elected official(s) and the appropriate oversight body, each substate area will have one or more Worker Adjustment Career Centers (WACCs) and a network of education, training and support service providers. A Partnership Agreement between all levels of government and the WACCs will describe support to be provided, responsibilities of each, and the outcomes expected. The network of WACCs will be established through a competitive process.
 - Competition of the WACC will occur at least once every four years, or more often if it is determined that a Center operator is not achieving adequate performance, or is in violation of administrative requirements.
- Workforce Adjustment Career Centers shall be single site locations at which all reemployment services shall be available. Information services may be available at other locations and

through other organizations. Reemployment services may be provided at employer sites in the case of plant closures or mass layoffs.

- Entities eligible to compete as WACC's include any existing providers of employment and training services, other public and private organizations, and consortia of such entities.
- Eligible entities must show that they can be honest brokers of education and training services for individual customers -- e.g., an entity that is eligible to be designated as a WACC but is also a direct provider of some education or training course will need to demonstrate that the WACC is not merely an entry point for its own programs, and that career counselors utilize all resources in the community as needed by the customer.
- A local governance entity shall be established which shall:
 - Establish a mechanism for obtaining regular candid customer feedback on the effectiveness and quality of services being provided at each WACC in the area.
 - Provide periodic reports to the Governor summarizing key customer feedback findings regarding strengths and weaknesses in the provision of dislocated worker services in the substate area and at each WACC.
 - Ensure that customer feedback information is considered in the recompetition of Center operators.
 - Implement a performance management process for WACC operations that includes both performance standards and customer feedback.
 - Operate an appeals process for an individual worker who cannot reach agreement with his or her Career Counselor regarding the Reemployment Plan, eligibility for training, and/or retraining support.

[There are two options for local governance. Option 1 uses an existing structure, e.g., EDWAA. Option 2 uses a new structure with a Workforce Investment Board (WIB) and local fiscal agent.]

- **OPTION 1:** The substate administrative entity shall be responsible for:
 - Receipt and administration of funds allocated to the substate area;
 - Preparation of a plan, as directed by the Governor, which identifies the number and location of Worker Adjustment Career Centers in the substate area, the training needed for jobs in demand and jobs of the future;
 - Administering a process for competitively selecting operators of Worker Adjustment Career Centers, and executing contracts with such operators;
- **OPTION 2:** The local elected officials(s) appoint a Workforce Investment Board (WIB). WIB membership will include business, labor organizations, education and training, local government, community organizations and other interested parties. Membership will be subject to certification by the Governor for compliance with membership requirements.
 - The WIB shall be responsible for program policy guidance and performance management. Responsibilities will include: determining the number, location, and budgets of WACCs; administering the process for competitively selecting WACCs; implementing a performance management process for WACC operations that includes both performance standards and customer feedback; identifying training needed for jobs in demand occupations and jobs expected to be in demand in the future; and ensuring that training is necessary and appropriate.
 - Local elected official(s) and the WIB select a substate fiscal agent which is responsible for administering funds, executing contracts with operators of WACCs, and

financial and compliance oversight of WACC operations.
[Local government entities represented by local elected officials are liable for misexpenditures of program funds in the substate area.]

- The WIB is prohibited from administering funds or delivering services.

I. CONDITIONS

- ▶ By July 1995, all States must provide all services to all eligible workers under this program through a network of Workforce Adjustment Career Centers or, at the Governor's option, One-Stop Career Centers.
 - Each Workforce Adjustment Career Center must provide all authorized reemployment services, and must provide for referrals to qualified providers of all authorized education and training services. Entrepreneurial training and non-occupational skills training may be provided as appropriate.

J. GENERAL ADMINISTRATIVE AND PROGRAM PROVISIONS

- ▶ The program will operate on a Program Year basis from July 1 through June 30, to provide lead time for allotment and allocation of funds and development of State and substate plans prior to the beginning of the program period.
- ▶ The proposal will add two year obligational authority permitting recapture and reuse of excess unexpended prior year funds from both formula and discretionary awards.
- ▶ Provisions relating to labor standards, safety and health, grievance procedure, non-duplication of activities and services that are already available, non-discrimination, fiscal controls and sanctions, administrative adjudication and judicial review, etc., will be similar to those applicable to EDWAA (under title I of JTPA). JTPA provisions related to serving most in need will not be included. The legislation will incorporate its own language on competitive procurement to be consistent with local governance structure provisions.

- ▶ State and substate performance standards will be used to monitor and measure performance through a national management information system that will report participant and expenditure data and training-related placements, and includes measures for wage replacement and job retention. Substate performance oversight will include program quality assessment by the existing local governance body and customer feedback mechanism.
- ▶ Retraining support will be administered through the UI system, with payments and administration being handled within each State's UI structure.

SECTION III ONE-STOP CAREER CENTERS

A. STATEMENT OF PURPOSE

- The goal of this initiative is to establish a national framework within which all States can create Statewide One-Stop Career Center networks to provide workers, job seekers, students, and employers who are in need of new or different jobs or skills with streamlined access to a comprehensive menu of employment, education, and training information and services. This system will be customer-oriented, outcome-based, and provide flexibility for State, local and individual decision making.
- The objectives of the initiative are to:
 - Improve access of all job seekers and employers to the services available through all DOL programs and the myriad of Federal employment and training programs.
 - Improve the quantity and quality of information and related services offered regarding jobs, careers, education and training organizations and their outcomes, education and training program eligibility requirements, and available supportive services.
 - Increase customer choice by providing 1) sufficient user friendly information and assistance to users with which to make informed decisions about employment, careers and training; and 2) potential for choice among multiple One-Stop Career Center operators within a labor market area.
 - Use Federal funds under this Section as venture capital, to underwrite the initial costs of planning and developing or expanding Statewide One-Stop Career Center networks.
 - Build on and advance a range of promising State and local approaches to streamline and coordinate education and training services; improve labor market information; and encourage collaborative efforts to achieve this end.

B. INTENT

- The Secretary of Labor will support the development of One-Stop Career Centers that:
 - Afford a substantial degree of State and local flexibility and discretion in establishing and implementing One-Stop Career Centers.
 - Contribute to reinventing government by building on State and local capacity, requiring measurable goals, and offering flexibility in meeting these goals.

C. GENERAL REQUIREMENTS

- The One-Stop Career Center system under this Act must contain the following elements:
 - (1) Universal Access: All individuals and employers are potential customers of the Centers. Centers must provide easy access to core basic services.
 - Each Center must provide access to all individuals and employers and may, consistent with an approved plan, specialize in serving certain population groups.
 - (2) Services: Each center must provide a standard menu of core services including specific basic services and specific intensive services for eligible dislocated workers. In addition, other services may be provided at the option of State and local areas.
 - Customers must have access to all basic services at each One-Stop Career Center.

[Issue: Must each Center operator have at least one physical location in the labor market area in which customers can get one-on-one personal service; or alternatively, should Center operators be required to demonstrate how all services, including those involving staff assistance, will be delivered in a "One-Stop" approach?]

- (3) **Comprehensive:** Centers must be the sole deliverer of core basic services for Department of Labor-funded employment and training programs such as JTPA Title II and ES, and the sole deliverer of both core basic and intensive services for the worker adjustment program.
- (4) **Quality driven:** Centers must ensure that high quality services are delivered by being customer-based, competitive, and outcome-driven.
- (5) **High Integrity and Accountability:** Centers must provide: public accountability for funds and quality of services; confidentiality of client; employee and employer data; impartiality; equal access to services; and avoidance of conflicts of interest.
- (6) **Governance:** A governance structure must be created at the State and local levels to oversee the One-Stop Career Center system and to facilitate integration of other programs that use the center.

D. IMPLEMENTATION OF THE ONE-STOP INITIATIVE

- There are three ways that States may receive Federal assistance in implementing the One-Stop Career Center initiative: planning and development grants, implementation grants, and the granting of statutory and/or regulatory waivers.
 - During the implementation phase, to facilitate maximum distribution of One-Stop funds, use of these funds for physical structures will be prohibited.
- States may apply for grants or waivers to create a Statewide system of One-Stop Career Centers. This system may be built on an incremental basis over a period of time, e.g., three years, commencing with a community or communities which are most ready to implement the Centers. These local communities may not directly apply for these limited One-Stop Career Center funds nor waivers independent of their respective States.
- Collaboration and consortia will be encouraged in the development of the State grant application.

► **State Planning and Development Grants**

- The purpose of this grant is to assist States in planning and developing a comprehensive, statewide network of One-Stop Career Centers.
- Upon the State's application, the Secretary may award such a grant to the State in such amounts as the Secretary determines is necessary to enable it to begin planning and developing a statewide One-Stop Career Center system.
- The application shall include information such as an estimate of the time and amount of funding necessary to complete the planning and development to implement a comprehensive Statewide system, including incorporation of WACCs; a description of how State and local area officials will work together to develop the system involving employers, labor organizations and other potential customers/customer representatives; a plan to establish a State Human Resource Investment Council (HRIC) and local Workforce Investment Boards (WIBs); and a commitment to implement all essential elements of One-Stop Career Centers.

► **State Implementation Grants**

- The purpose of an implementation grant is to assist States in implementing a system of One-Stop Career Centers. Such grants may be awarded to States subsequent to the completion of plans developed pursuant to the Planning and Development Grants described above and to States that have planned for the One-Stop Career Centers without such assistance.
- The implementation grant application shall include information such as a plan for a comprehensive statewide system that meets the minimum criteria contained in the legislation, a description of how the State will ensure that the Centers are the sole deliverers of basic services for JTPA, ES, and EDWAA; the integration of DOL workforce development programs into One-Stop Centers and encourage other programs to become partners; a description of the chartering process for center operators, including a description of the state plan for ensuring that all residents have equal opportunity to access the services; and, the

performance measures, including customer satisfaction, that will be used initially until national performance standards are established.

► **Waiver Requests**

Any State may request a waiver of one or more statutory or regulatory provisions to further its progress in achieving the goals of the One-Stop Career Center initiative. Such waiver may be granted in conjunction with a grant under this Section or separately.

► **Approval Criteria**

- To obtain an implementation grant or waiver, a State must:
 - Implement the general requirements described under Section C. General Requirements.
 - Require DOL-funded employment and training programs (ES, Comprehensive Worker Adjustment Program, JTPA Title II) to utilize the One-Stop Career Centers for the core basic services.
 - Ensure that funds from these DOL-funded programs are provided for the core basic services.
 - States are strongly encouraged to integrate other non-DOL programs through collaborative efforts or development of consortia. Such efforts will be given special consideration in the grant application and waiver request evaluation process.
 - Have a governance structure in effect to oversee the State's One-Stop Career Center system.

E. CORE SERVICES

Each One-Stop Career Center must provide certain minimum core services.

There are two types of core services which will be provided through the One-Stop Career Center: basic services, which must be available

universally; and intensive services, which are required to be available for eligible dislocated workers and which may be provided to others, depending on funding sources. Each Center may enhance these intensive services depending on service needs of the local population and availability of funding sources (private and public).

- From the outset, all One-Stop Career Center operators will compete for customers. To attract customers, Center operators will focus on the provision of quality services.

(1) Basic Services

► The following services will be available to all individuals at no charge:

- Customer-oriented information on careers, labor markets, jobs, availability and quality of education and training programs;
- Filing initial UI claims;
- Department of Labor's Veterans' employment and training services;
- Preliminary assessment of skills, interests and aptitudes;
- Career exploration;
- Review of the eligibility requirements for DOL and non-DOL workforce development programs such as Pell grants and JOBS with referral for eligibility determinations as appropriate;
- Eligibility determination for and assistance in enrollment in all DOL-funded employment and training programs;
- Job search assistance, including self-directed resume preparation;
- Job referral, job development, and placement services; and
- Employer services, including applicant screening and recruitment.

[NOTE: One-Stop basic core services differ from dislocated worker basic reemployment services in several respects:

- WACCs will offer orientation to available information and services; One-Stop Career Centers will not;
- WACCs will offer career exploration and guidance; One-Stop Career Centers, will only offer career exploration;
- WACCs will review eligibility for all DOL-funded employment and training programs; One-Stop Career Centers will perform eligibility reviews for all workforce development programs; and
- WACCs will provide job search skills training; One-Stop Career Centers will offer job search assistance.

These differences reflect concerns about the availability of resources for serving the general public at no charge and the need for more intensive basic services for dislocated workers.]

One-Stop Career Centers will be the sole deliverers of basic services for DOL-funded programs such as JTPA Title II, ES, and the basic and intensive services for worker adjustment program. The Unemployment Insurance services remains the responsibility of the State, which will continue to determine how these services are delivered and will work with the Centers to develop methods of enabling customers to file UI claims in one stop.

- Funds from these programs which would otherwise be used to provide these core services must be made available to the One-Stop Career Centers for these services.

[Issue: To what extent can provision of core basic services be sub-contracted?]

(2) Intensive Services

- ▶ The following services will be available to eligible dislocated workers:
 - Diagnostic testing of skills and aptitudes and in-depth interviewing to develop appropriate employment goals and identify employment barriers;
 - Individualized counseling and career planning;
 - Preparation of a Reemployment Plan;
 - Assistance in the evaluation and selection of an appropriate provider of needed education, training and support services; and,
 - Reemployment bonuses through the UI system to eligible individuals in States which have this UI payment option.
- ▶ In addition to providing these services to workers who are permanently laid off, other Federal, State, and local programs may purchase these services with the agreement of the local governance board or in its absence, the Governor or other appropriate officials through the One-Stop Career Centers -- e.g., JTPA Title II.
 - Individuals may be charged fees for the provision of intensive services except that fees may not be charged for intensive services which dislocated workers or other program eligible (e.g., JTPA Title II) participants receive.

F. OPTIONAL SERVICES

- ▶ At the discretion of the State, additional UI services (e.g., eligibility reviews and continued claims) may be provided through the One-Stop Career Center to customers. These will be provided at no charge to the customer.
- ▶ At the discretion of the State and local areas, additional services may be provided for specific customers, employers, and job seekers. Fees may be charged for optional services unless the recipients are eligible

for these services under Federally funded programs or fee payments are available through other funding sources (e.g., other Federal, State or local programs; non-profit agencies).

G. SERVICE PROVISION

- ▶ Provision of core basic services will rely heavily on products which can be accessed through modern technology in order to promote self-directed access to these services.
- ▶ Core basic services must be accessible through each One-Stop Career Center, and staff must be made available to assist those who are unable to utilize the services themselves. It is envisioned that self-accessed services will also be available through a variety of technologies and media, and accessible at other outlets, such as kiosks, out-stationed computer terminals in community colleges, neighborhood service offices, JTPA offices, and UI offices.
- ▶ Core intensive services require more staff intervention and must be provided at One-Stop Career Center locations.

H. Performance Measures

- ▶ Performance measures will focus on outcomes related to the increased benefit to the customers (both individuals and employers) and the communities in which the Center operates. Outcome and performance measures for the individual programs (JTPA, Title II, Dislocated Workers, etc.) will remain with each program.
- ▶ General Prerequisites
 - Each center must utilize the minimum technical standards which guarantee the portability of State-developed systems and applications (see National Labor Market Information System, Section II). The technology will capture complex data which can be collected easily at all levels (Statewide, local, individual Centers).

- Data elements should be developed for the State, local, and center levels. Customers and organizations often have highly specific and discrete data needs (e.g., individual center performance). Easy-to-use and sophisticated information retrieval systems should be available universally.
 - Integrity of data must be maintained at all levels to ensure accuracy and protect privacy.
 - All data elements should be designed to provide ongoing feedback so that all processes in the One-Stop system will be able to improve continuously. Information about quality and innovation will be shared throughout the system so that benchmarks can be developed and best practices can become widely known.
 - Standards must be rigorous, but must also reflect local demographics and resources.
- **Career Center Standards**
- Centers will be evaluated using a number of Federally designed measures. States and WIBs may develop additional measures to conduct continuous self-evaluation and quality improvement.
 - Measures may include:
 - Ease of availability of information for all relevant programs through One-Stop access points (service centers, kiosks, etc.).
 - Comfort for all customers (disadvantaged, dislocated, students, employed, etc.) accessing the One-Stop system. Equitable services for all groups.
 - Quality of services and customer satisfaction.
 - Variety and numbers of local organizations, public and private, participating in the network of services to customers through the One-Stop Centers.

- Involvement of past and present customers in Center activities (job development, peer support, etc.).
- Innovative development of new products and services for employers.
- Outcome measures such as job placement rates for those customers who receive basic services only.

I. CHARTERING ONE-STOP CAREER CENTERS

• What is a Charter

- A Charter is a "Seal of Approval" that signifies Federal, State, and local criteria have been met for the operation of a One-Stop Career Center. This authorizes the Center operator to provide specific services and receive funding.

• Entities Eligible to Receive a Charter

- All eligible entities both public and private, for-profit and non-profit, may apply for a One-Stop Career Center charter, in accordance with procedures described below.
 - Consortia are eligible to submit applications for charters as a way to build on the differing expertise of existing service providers and to involve entities with additional expertise. (A consortium is any unit of government, public or private service provider, or combination of governmental units and service providers.)
- In each labor market area, One-Stop Career Centers will be operated by ES, or consortium of which it is a part, and/or for-profit and non-profit entities. All eligible entities must meet the chartering criteria.
 - For an initial phase-in period, any ES office (or consortium that includes an ES office) that meets the chartering criteria shall be chartered. During such period, other entities meeting the criteria may be concurrently chartered as described below.

► **Chartering Criteria**

The Department of Labor will publish the criteria for the chartering of Centers in the Federal Register. The Department will use a broad consultative process, including written comments, focus groups, and reviews of best existing business and service practices to determine the criteria.

- Federal criteria for obtaining a charter to operate a Center would include:

- Demonstration by eligible organizations:

They can provide all core services and comply with all other operating requirements including labor market viability of One-Stop Career Centers.

They have wide customer access.

They can be honest brokers of education and training services for individual customers.

Honest broker means that the entity must demonstrate that it has established procedures for referring One-Stop Career Center customers independently and impartially to its ongoing services; and subsequent to award, it must document that it has performed in an impartial manner.

They can provide services to diverse types of customers, including disadvantaged, minority, or other hard-to-serve populations. Eligible entities may choose to focus services on particular types of customers, but may not exclude any group from their service plan.

- Additional Federal criteria may include such elements as indicators of past performance, facility requirements, staff qualifications, coordination and linkages with other

programs and service providers, marketing plans, and financial management systems and other elements designed to ensure that the applicant has the ability to meet the general requirements described in Section III C. (1)-(5) "General Requirements."

- Additional criteria may be established by the Governor and by the WIBs that reflect particular State and local needs. These additional criteria must be consistent with the Federal criteria and cannot be used to reduce or eliminate legitimate competitors.
- Who Issues the Charter
 - The Department of Labor develops the Federal Criteria.
 - The State shall oversee the chartering process to ensure that it complies with all Federal and State requirements.
 - The local Workforce Investment Board (see Governance section) shall manage the chartering of One-Stop Career Center operators and determine the number of charters to be granted based on a labor market viability assessment. Generally, this assessment would ensure that customers would always have a choice of two or more Center operators and that extra service capacity is built-in for each Center.
 - Subsequent chartering will be managed through the local WIB.
- Frequency of Chartering
 - The Charter would be granted by the State and/or WIB.
 - The term of the charter will be established by the State and/or WIB.
 - If, during the term of a charter, an operator is not achieving adequate performance or is in violation of administrative requirements, the charter will be revoked by the local WIB in coordination with the local elected official.

• **Funding**

- The Department shall design a method of funding which enables existing DOL-funded program dollars for core services to be available to the One-Stop Career Centers. Consideration shall be given to allocating these resources in a manner that recognizes both the number of customers served and the quality of services provided.

[Issue: What method should be used? Two options are under consideration.]

- Option 1: Under a phased-allocation formula, the ES or Consortium of which the ES is a part will be guaranteed a substantial percentage of the State's labor exchange resources which will decline over the specified transition period.

A smaller portion of labor exchange funds and a portion of the JTPA Title II and dislocated worker funds will be available to reimburse other chartered operators based on the number of customers served.

At the end of the transition period, the ES, or the Consortium of which ES is a part, will compete for its resources -- on an equal competitive basis -
- with all other chartered center operators.

- Option 2: A method to allocate funds to Center operators using a "base-supplemental/incentive approach." Under this approach, each chartered entity would receive some initial allocation of resources. This initial allocation would be supplemented based on such factors as the number of customers served and the quality of services provided.
- The U.S. Employment Service shall continue to administer reimbursable grants (e.g., JTTC, Labor Certification) with funding as provided for through the ES Cost Reimbursable Grants.

J. TRANSITION PROVISIONS

- ▶ **Transitioning from Worker Adjustment Career Centers (WACC'S) to One-Stop Career Centers (OCC'S)**
 - States initially will have the option of deciding whether or not to apply for One-Stop funds and/or waivers to establish One-Stop Career Centers (OCC's) at the same time that they set up a network of Workforce Adjustment One-Stop Career Centers (WACC's) for dislocated workers. This network of WACC's must be in place by July 1995. If a State decides it wants to convert its network of Workforce Adjustment One-Stop Career Centers to One-Stop Career Centers after this time, it will have to meet all of the same basic requirements that would have applied if it had decided to implement One-Stop Career Centers simultaneously with the dislocated worker program (e.g., governance structure, universal access, standard menu of core basic services, quality driven etc.).
 - Any competitively chosen WACC operators which have met their performance objectives will be automatically chartered as OCC's for the remainder of their WACC contract period.

K. GOVERNANCE

A governance structure must be in effect at the Federal, State and local level to oversee the One-Stop Career Center network and to facilitate integration of other programs that use the centers and to ensure development and distribution of the national labor market information system products.

- ▶ **Federal Roles and Responsibilities**
 - Develop a national logo and name which will be used to identify all One-Stop Career Centers as part of the nationwide Workforce Investment System. The purpose of this national identification is to enable customers to more readily identify and access One-Stop Career Centers in any State in any location.

- Conduct program planning and oversight activities to ensure the effectiveness of the One-Stop Career Center system and workforce investment programs.
- Establish basic criteria for chartering One-Stop Career Centers.
- Establish a system of outcome measures and performance standards as a basis for evaluating the success of the One-Stop Career Centers (See Section H).
 - Prescribe performance measures and develop a performance standards approach relating to One-Stop Career Centers. Such measures shall be based on factors the Secretary deems appropriate (see Section H).
 - Regularly evaluate the effectiveness of the measures.
- Provide Federal direction and technical assistance where needed and allow flexibility at the State and local levels where possible.
- Establish procedures and criteria for awarding grants to States for planning and implementing statewide One-Stop Career Center systems and a process for granting waivers and other strategies to remove barriers to effective program integration at the State and local levels.
- Execute a Partnership Agreement with each State, local elected officials, and each Center receiving a grant or waiver to describe responsibilities at each level of government to support the delivery of high quality services to Center customers.
- **Governor/State Roles and Responsibilities**
 - In conjunction with local bodies and representatives, the Governor establishes a Statewide network of One-Stop Career Centers.
 - Designate a State agency to receive Federal funds for One-Stop Career Centers and to oversee the network of One-Stop Career Centers established in the State.

- Establish an approach for funding One-Stop Career Center core services, including the process for accessing funds under JTPA, worker adjustment program, and ES for services provided through the One-Stop system at the substate area level.
- Designate labor market areas for the State (in conjunction with local elected official(s)) which shall be the basis for the local WIB's jurisdiction and the area within which One-Stop Career Centers will be chartered. Labor market areas designated for the worker adjustment program shall also constitute the labor market areas for the One-Stop Career Centers.
- Certify that the Workforce Investment Board meets all State and Federal requirements.
- Serve as the focal point to collect and distribute new labor market information, including information on customer satisfaction and on performance of education and training providers in the labor market areas.
 - Follow the procedures established under the worker adjustment program for the publication of such information and the disqualification of service providers that do not comply with law, refuse to provide accurate and timely information, or fail to meet minimum performance standards.
 - Establish a process to appeal such disqualification.
- Establish performance standards for each Federally established measure. States may develop additional statewide measures and standards.
 - Obtain the data that are necessary for the development of such standards.
 - Implement initial standards no later than one year after implementation.
- Establish a system to oversee the chartering of local Center operators, including additional criteria for Center selection and chartering to reflect specific State requirements and/or

recognition of diversity of local labor markets. These criteria, however, may only augment, and not substitute for, the criteria for chartering required by Federal law and regulations.

- Provide general oversight and technical assistance, including capacity-building, to the One-Stop Career Center system to ensure that quality services are being delivered within the statewide network.
- Enter into a Partnership Agreement with DOL, local elected officials, and the Centers which describes roles, responsibilities, and expectations for each.
- Establish a Human Resource Investment Council (HRIC) to direct the development and implementation of a statewide workforce development strategy.

[NOTE: Under current JTPA law, Governors are encouraged, but not required, to establish HRICs.]

► **Local Roles and Responsibilities**

- A Partnership Agreement between DOL, the State, and local elected officials will be developed which describes the support to be provided to the Centers, the responsibilities of each party, and the expected outcomes.
- Local elected official(s) shall establish a Workforce Investment Board (WIB) for each labor market area.
- The membership of the WIB is to be drawn from business, labor organizations, education and training, local government, and other interested parties.
- The WIB is responsible for broad strategic planning and oversight for DOL funded and other Federal, state, and local workforce development programs operating in the area. The WIB will serve as the key agent in a labor market to identify training needed for jobs in demand occupations, jobs of the future, and to ensure that unnecessary training is not occurring.

The WIB will have an independent staff to help carry out these activities. The board is not intended to carry out operational, daily management functions.

[Issue: Should the board have the flexibility to assume operational responsibilities?]

- The WIB will guide Department of Labor-funded employment and training programs (excluding UI), develop a local Customer Service Plan (CSP), determine the number and location of the centers, and establish quantifiable program outcomes consistent with Federal and State guidelines.
- The WIB is responsible for establishing a quality assurance/customer feedback mechanism for each center through which candid, unfiltered customer feedback may be obtained. This shall include the establishment of customer service panels for each center which will provide information and feedback on the representatives experiences at the center and the quality of services delivered by the center. It may also include mechanisms such as focus groups or surveys.
 - Panel membership should reflect balanced representation of center customers, including workers, students, unemployed persons, and employers. Panel membership may not include anyone engaged in or having a financial interest in the provision of employment, training, or education services.
 - WIBs replace separate, governing boards at the local level for at least DOL funded programs, e.g., JTPA, ES, EDWAA.
- The WIB may establish additional criteria for Center chartering which reflect special recognition of particular local labor market needs and requirements. These criteria, however, cannot annul or dilute previously specified Federal or State criteria.

L. WAIVERS

- ▶ At the Governor's request, the Secretary of Labor may waive any law or part thereof, or regulation or part thereof, except as provided below, applicable to any program administered by the Department of Labor, Employment and Training Administration, which is included in the One-Stop Career Centers.
 - If, and only to the extent that, the Secretary determines that such requirement impedes the ability of the State to carry out the purpose of this Act.
 - If the State has waived, or agrees to waive, similar requirements of State law.
 - If the State has met all the requirements of the Act and implementing regulations.
- ▶ The Secretary shall act promptly on any waiver request.
- ▶ Waivers would not be approved to change the purposes or goals of the affected programs, alter individual eligibility requirements for program participants, modify the allocation of program funds to State or substate areas, or alter any law with regard to public health or safety, civil rights, occupational safety and health, or environmental protection.

[Issue: Should waiver authority be further restricted – JTPA Title II minimum requirements of reaching the hard-to-serve, or program specific performance standards? Enumeration of specific statutory provisions to be included, JTPA, Wagner-Peyser, etc.? Should there be a not-to-exceed time limit for the waiver period? Should the Secretary reserve the right to terminate the waiver?]

M. ADMINISTRATIVE PROVISIONS

Under development.

N. AUTHORIZATION AND ALLOTMENT OF FUNDS

- ▶ Under development.

SECTION IV NATIONAL LABOR MARKET INFORMATION SYSTEM

A. STATEMENT OF PURPOSE

- ▶ The Secretary is authorized to develop and implement a coherent national labor market and occupational information strategy that meets the needs of American employees, workers, students, and other job seekers.
- ▶ The Secretary is authorized to use funds available under this Act as well other appropriated funds to develop and implement this system.
- ▶ The National Labor Market Information System under the Workforce Investment Strategy builds on existing products and capabilities at the Federal, State and local levels. The approach will ensure that labor market information products are widely collected, distributed, and continually updated and are newly developed as necessary. The Department of Labor will assist the development and implementation of data collection and analysis of labor statistics and occupational information, and identify technology which is beneficial in the organization, dissemination and use of these data.
- ▶ This initiative will utilize proven and emerging technologies and computer applications to convert information into customer-friendly and self-service tools. These tools will be made available to both customers and staff in Workforce Adjustment Centers and One-Stop Career Centers.
- ▶ The Secretary is authorized to identify the labor market information networking requirements of and technical standards for the Workforce Adjustment Career Centers and One-Stop Career Centers.
- ▶ The Secretary will consult with other Federal agencies as appropriate, to coordinate the activities described in this Section with other relevant institutes, centers, clearinghouses, and dissemination networks with a capability and interest in providing quality labor market information to job seekers and employers.

B. FUNDING

- ▶ National grants under this initiative will be provided to State and local areas and other entities for enhancing current systems and developing improved labor market applications. The Department will utilize funds from both the One-Stop and Worker Adjustment Career Center initiatives to improve the scope and quality of all information products as well as from other available DOL fund sources.
- ▶ The Secretary is authorized to enter into contracts, interagency agreements, or memoranda of understanding with private corporations and Federally-funded national laboratories. These arrangements should expedite the implementation of the National Labor Market Information System by providing technical assistance, developing prototypes, and creating open-system models.
- ▶ The Department will also identify other Federal fund sources (e.g., Departments of Education and Defense) which currently support -- or may augment -- the National Labor Market Information System. Most significant new LMI investments will build on existing Bureau of Labor Statistics programs operated by the State Employment Security Agencies as well as the products and systems of the National Occupational Information Coordinating Committee (NOICC) and the State Occupational Information Coordinating Committees (SOICC).

C. SYSTEM CHARACTERISTICS

- ▶ The Secretary will define the major elements of the National Labor Market Information System and the general results needed to ensure customer access, choice, and decision-making capability. State and local labor market areas will have maximum flexibility to tailor these products and services to best meet their customer expressed requirements. Federal and State elements will include labor market information publications, contents of public access data bases, information specifications and standards for the multi-media kiosks to ensure consistency within and across State boundaries.
- ▶ The Secretary will set forth the necessary minimum technical standards (including open-system architecture specifications and current ANSI, CITT and ISO standards) in order to guarantee the portability of State- or local-developed labor market information systems and applications which have potential benefit for customers in other States.

Workforce Investment Strategy

- ▶ The Secretary will provide technical assistance (through private contractors, national laboratories, NOICC, and SOICCs) to State and local staff in the implementation, expansion and quality improvement of this system.
- ▶ The following major elements will be produced through the National Labor Market Information System:
 - High quality State/local labor market and occupational information;
 - Information on the local economy; available job opportunities; and, available employment and training programs and services;
 - Eligibility requirements for programs and services;
 - Consumer reports on the local education and training service providers;
 - Customer satisfaction surveys;
 - Automated eligibility screening systems; and
 - Automated job banks.

SECTION V ADDITIONAL PROVISIONS

► **WARN Amendment**

- The Worker Adjustment and Retraining Notification (WARN) Act would be amended to lower the threshold that requires an employer to give advance notice for a mass layoff. Change threshold to eliminate the one-third requirement and require notice of any layoff of 50 or more workers.

[NOTE: Current law triggers "mass layoff" notification when there is an employment loss at a single site of employment during any 30-day period of 33 percent of full-time employees and at least 50 workers, or of at least 500 employees.

Alternatives are to: (1) eliminate the one-third requirement and lower the threshold to 25 workers laid off in any facility (Senator Metzenbaum's and Congressman Ford's proposals); retain the one-third and 50 workers requirement and reduce the 500 employees threshold; or (3) reduce the percentage so that many large layoffs are not WARN-exempt.]

- Transition provisions, including extension and phase-out of TAA
- Effective Date, Repealers.
- Amendments to other Acts.

CHAIRMAN CONYERS' FOLLOWUP QUESTIONS - DR. ROBERT REISCHAUER

I. IMPACT ON PUBLIC SECTOR ACTIVITIES

1. You testified that NAFTA will provide net economic gains for all three countries.
 - In what industries do you anticipate job loss?
 - Are there regions of the country that will experience disproportionate job loss or wage reduction?
 - Are there ethnic or minority groups that will disproportionately experience job loss or wage reduction?
 - What does your analysis tell you about the capacity of those groups to recover from the effect of NAFTA?
2. President Clinton has indicated that the NAFTA implementing legislation will include provisions for comprehensive worker adjustment assistance. The Administration has also committed to seeking additional environmental funding to clean-up specific sites and for infrastructure improvement.
 - What will these programs cost? How will they be financed?
 - If certain regions of the country and certain population groups are most likely to face job loss or wage reduction, isn't it true that in those same regions or groups there will be a corresponding loss of tax revenues?
 - Won't this loss of tax revenues effect the quality and quantity of public services?
3. NAFTA critics anticipate that claims for unemployment will rise and additional demands for job retraining, and health and social services will fall to a public sector with sharply depleted resources.
 - How do you respond to this criticism?



CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Robert D. Reischauer
Director

August 19, 1993

Honorable John Conyers, Jr.
Chairman
Subcommittee on Legislation and
National Security
Committee on Government Operations
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Enclosed are responses to the additional questions you recently submitted to the Congressional Budget Office to be included in the official record of the hearing before your Subcommittee on July 27, 1993.

If I may be of further assistance, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to be 'RD Reischauer', with a long horizontal flourish extending to the right.

Robert D. Reischauer

Enclosure

cc: Honorable Alfred A. McCandless
Ranking Minority Member

1. You testified that NAFTA will provide net economic gains for all three countries.

o In what industries do you anticipate job loss?

On balance, NAFTA would provide net economic gains for all three countries, but the agreement would necessarily cause some reallocation of resources within each country. Net economic gains cannot be realized unless such adjustments are made--labor and capital must be shifted from less profitable to more profitable uses. The reallocation of resources in this country would not be massive, but industries making intensive use of low-skilled labor--particularly those that are now protected by substantial tariffs or import restrictions--could experience losses. Even where change is anticipated, the results are likely to be mixed within individual industries. Of the industries that CBO examined in greater detail, the apparel industry may register a net loss of jobs, but that loss would probably be small.

As stated in CBO's testimony, it is important to keep in mind that with or without NAFTA, low-skilled workers in the United States will continue to face competition from low-wage workers

in other countries. Without NAFTA, some low-skilled workers in the United States might be granted a small and temporary reprieve, but technological change and the competitive forces that drive the U.S. economy would continue to apply pressure. Moreover, U.S. workers in firms that are already oriented toward providing goods and services to Mexico could find themselves in jeopardy if NAFTA were not carried out.

- o **Are there regions of the country that will experience disproportionate job loss or wage reduction?**

CBO has no basis for estimating the effect of the agreement on particular regions.

- o **Are there ethnic or minority groups that will disproportionately experience job loss or wage reduction?**

Workers with less than a high school diploma are probably more vulnerable to job loss than other workers, and this group includes a disproportionate number of African-Americans and individuals of Hispanic origin.

- o **What does your analysis tell you about the capacity of those groups to recover from the effect of NAFTA?**

African-American workers displaced during the 1980s had a slightly more difficult time finding comparable new jobs than other workers displaced during that decade. One to three years after losing their jobs, about 63 percent of African-American workers were working again, compared with 75 percent of other displaced workers. Among displaced workers who found new jobs, however, African-Americans were no more likely than others to be earning significantly lower wages.

Among just those workers who might lose their jobs because of NAFTA, it is difficult to say whether members of a particular ethnic group or minority would fare worse than other workers. As with those who lose jobs for other reasons, we would expect that members of a particular group would fare worse to the extent that they were less educated or had less training than other workers.

2. President Clinton has indicated that the NAFTA implementing legislation will include provisions for comprehensive worker adjustment assistance. The Administration has also committed to seeking additional environmental funding to clean-up specific sites and for infrastructure improvement.

- o What will these programs cost? How will they be financed?**

In the absence of a specific legislative proposal, CBO cannot estimate the cost of programs, nor can it predict the methods that would be used to finance such programs.

- o If certain regions of the country and certain population groups are most likely to face job loss or wage reduction, isn't it true that in those same regions or groups there will be a corresponding loss of tax revenues?**

CBO recognizes that some U.S. workers, firms, and communities would undoubtedly experience painful adjustments and losses, but has no basis for estimating the effect of NAFTA on state and local tax revenues. Even when a particular locality or state faces a contraction in a specific firm or industry, there may be a

concurrent increase in the activity of another firm or industry in that area. Consequently, the net effect on tax revenues is unclear.

- o **Won't this loss of tax revenues effect the quality and quantity of public services?**

CBO has no basis for estimating the effect of the agreement on the quality and quantity of public services provided at state and local levels. As noted above, this will depend upon a number of factors, including the net change in economic activity and the nature of as-yet-unspecified federal programs.

3. NAFTA critics anticipate that claims for unemployment will rise and additional demands for job retraining, and health and social services will fall to a public sector with sharply depleted resources.

o **How do you respond to this criticism?**

On balance, CBO expects NAFTA to increase total income, employment, and earnings in the United States. Although spending for unemployment insurance and other benefits would rise for workers who lost their jobs, it would fall for workers who gained from NAFTA. We have no basis for concluding that there would be a net increase in unemployment insurance claims attributable to NAFTA.

CHAIRMAN CONYERS' FOLLOWUP QUESTIONS - MS. LINDA CHAVEZ-THOMPSON

i. IMPACT ON PUBLIC SECTOR JOBS AND SERVICES

1. Administration witnesses point to provisions in the agreement that preclude the downward harmonization of standards.
 - How do you respond to this testimony?
2. We have heard in testimony that NAFTA will provide net economic gains for all three countries.
 - How do you respond to this testimony?
 - In what industries do you anticipate job loss?
 - Are there regions of the country that will experience disproportionate job loss or wage reduction?
 - Are there ethnic or minority groups that will disproportionately experience job loss or wage reduction?
 - What does your analysis tell you about the capacity of those groups to recover from the effect of NAFTA?
3. The Congressional Budget Office reports potential budgetary costs related to NAFTA resulting from increased expenditures for workers who may lose their jobs as a result of the agreement.
 - What is your assessment of the costs to the U.S. government?
4. President Clinton has indicated that the NAFTA implementing legislation will include provisions for comprehensive worker adjustment assistance. The Administration has also committed to seeking additional environmental funding to clean-up specific sites and for infrastructure improvement.
 - What should a comprehensive worker adjustment program look like?
 - If certain regions of the country and certain population groups are most likely to face job loss or wage reduction, isn't it true that in those same regions or groups there will be a corresponding loss of tax revenues?
 - How specifically will this loss of tax revenues effect the quality and quantity of public services?
5. You testified that the provision of new public services and the expansion of existing programs will be almost prohibited under NAFTA.
 - What language in the agreement prohibits the creation or expansion of public services?
 - How will this affect the Administration's health care reform goals? Couldn't it also have an impact on dislocated workers assistance programs?



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Larry R. Smith
East Lansing, Mich.

Linda Chavez-Thompson
San Antonio, Tex.

Carlend W. Webb
Baton Rouge, La.

November 3, 1993

**The Honorable John Conyers
Chairman
Committee on Government Operations
U.S. House of Representatives
Washington, D.C. 20515**

Dear Mr. Chairman:

The following remarks are made in response to the follow-up questions pertaining to testimony which Ms. Linda Chavez-Thompson gave on the "Impact of NAFTA on the Public Sector" before the Legislation and National Security Subcommittee of the Committee on Government Operations.

In AFSCME's judgement, the Administration's claims that the agreement will preclude the downward harmonization of standards and will provide net economic gains for all three countries are not based on any hard evidence. I refer to the Joint Economic Committee's (JEC) analysis of the models used by NAFTA proponents to make their claims. The JEC concludes that these are based on unworthy assumptions such as full employment and no shift of investment. The JEC concludes that the depression of wages is likely to average \$384 per worker.

NAFTA proponents claim that free trade will create higher wage jobs for U.S. workers because Mexican workers will take jobs at the lower end of the skill ladder while American workers will move up to better paying jobs. Once again, there is no evidence to support this claim.

An examination of the average hourly wages for production workers in those industries which are running a current trade deficit with Mexico reveals that the jobs being lost are high, not low, wage manufacturing jobs. Wages in these industries range from \$8.30 in textile and apparel to \$16.30 in electricity transmission, with hourly wages in six of the nine industries averaging over \$12 per hour. Historically, those who lose jobs from imports are likely to get reemployed at lower wages when they can find a job at all.

Initial claims of big job gains were based on the predictions of economic models using assumptions which failed to reflect the economic reality of the three countries or the actual content of the agreement itself.

in the public service

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These "other worldly" assumptions included full employment, investment made in Mexico would not be diverted from investment made in the U.S., and that consumers will prefer products produced in their own country regardless of cost.

It is important to note that the comparable models that the U.S. International Trade Commission relied on to predict the outcome of the Canada-U.S. Free Trade Agreement proved notoriously incompetent. In fact, a random prediction of job gains or losses by industry would have performed better than the economic models did in the two-and-a-half years following implementation of the Canada-U.S. agreement.

After several tries to come up with estimates of big job gains by using various economic models, the U.S. International Trade Commission issued a final report on NAFTA which concluded that total employment with the agreement would gradually rise – listen carefully – by up to eight hundredths of one percentage point in the United States.

More recently, NAFTA proponents have abandoned the economic models and argued that NAFTA's net impact on jobs should be measured by the size of the U.S. trade surplus with Mexico. For example, the most widely circulated pro-NAFTA study by economists Gary Hufbauer and Jeffrey Schott predicts that NAFTA will create 170,000 net new jobs in the U.S. by 1995, although the U.S. will suffer a small net job loss of about 5,400 jobs when trade eventually balances between the U.S. and Mexico. Furthermore, Hufbauer and Schott now tell us that 150,000 of the projected 170,000 jobs have already been created. That leaves us with an estimated future gain of only 20,000 jobs!

However, once again it is necessary to question the assumptions which Hufbauer and Schott use to predict even a medium term job gain. Like earlier economic models, this forecast is based on the assumption that Mexico will receive massive increases in foreign investment, but, that the investment diverted from the U.S., which supplies the bulk of foreign investment in Mexico, will not cause any U.S. job loss. They also assume that the U.S. trade surplus with Mexico will double between now and 1995.

Both assumptions are highly unlikely. Much of the U.S. surplus with Mexico comes from the Mexican peso's overvalue relative to the dollar. When the peso falls, it will shrink the U.S. trade surplus. Another reason that the current trade surplus with Mexico cannot last is apparent from examining the composition of that surplus – 85 percent is in capital goods. Mexican producers, many of them U.S. based firms, are now importing machinery and equipment so that Mexico can develop the productive capacity to export consumer goods back to the U.S., not for the Mexican market.

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Mickey Kantor, the U.S. Trade Representative, has also used job estimates loosely. Kantor has stated that trade with Mexico currently supports 700,000 jobs; that NAFTA's passage will create an additional 200,000 jobs and conversely, NAFTA's defeat will lead to a loss of 400,000 jobs. These claims are misleading because they represent jobs supported by total or gross exports to Mexico rather than net exports which is exports minus imports. While some workers are employed in producing exports to Mexico others have lost their jobs because of imports from Mexico, which have been on a sharp ascent since 1987. Similarly, Kantor's predictions of specific job gains or losses linked to NAFTA's future are based on unreliable estimates.

Even now the U.S. is running a trade deficit with Mexico in practically every major category of consumer goods. Over the past three years our trade deficit with Mexico has grown in the following areas: automobiles and trucks; textiles and apparel; household glassware; ceramic floor and wall tiles; major household appliances; electronics and computers, flat glass products, petroleum and natural gas; and electricity transmission.

Estimates of probable job losses by economists who are not NAFTA supporters have gone as high as one million. While no one can predict the exact number, there is agreement that there will be substantial losses especially in some industries and some regions of the country. And, using Canada as a test case, the predictions of big job gains turned into a reality of big job losses.

Mexico's consumer market is between four and five percent of the U.S. market and too small to have an appreciable impact on U.S. exports. It is just not credible for U.S. businesses to claim that their interest in NAFTA is due to the potential of the Mexican market, one-twentieth the size of ours. If indeed this is really the case, U.S. business should be looking to invest in our African-American communities whose purchasing power is already greater than the entire Mexican market.

In 1990, the aggregate purchasing power of the African-American community alone was \$265 billion. That same year, the Gross Domestic Product (GDP) which represents all private and public sector spending and investment in the entire country of Mexico was only \$5 billion more or \$270 billion.

Clearly, then the purchasing power of the African-American community is already much greater than Mexico's consumer market. The average African-American worker makes three to four times the average Mexican worker. In 1991, the median weekly earnings for African-Americans was \$348 as compared to \$93.60 for Mexican workers. There is also enormous growth potential in the African-American market. Today, the unemployment rate in our African-American communities averages 14 percent. If the American business community were making investments in

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jobs, plants and equipment in our African-American communities as it is doing in Mexico the unemployment rate would plummet thereby increasing the size of the consumer market and the tax revenues of our local, state and federal governments.

While NAFTA backers argue that U.S. companies are not moving to Mexico in order to pay low wages, the evidence forces an opposite conclusion. Productivity in Mexican export industries is 80 to 100 percent of that in similar industries in the U.S., while wages are only 10 to 15 percent of U.S. levels.

In February, it was revealed that the Mexican government's largest development bank was a significant investor - they have since withdrawn - in the AmeriMex Maquiladora Fund which was established to purchase established domestic United States companies. The prospectus estimated that manufacturing companies now paying \$7 to \$10 an hour to their workers in the United States can pay Mexican workers just \$1.15 to \$1.50 an hour. Business and trade organizations continue to use the lure of low wages to woo investors and U.S. companies south of the border.

In the 1980s, manufacturing productivity in Mexico rose 28 percent, while real wages fell 24 percent. In an increasing number of industries, labor productivity in Mexico is even higher than in comparable U.S. plants because the plants are more modern and it is cheap to offer extensive training.

The main reason that Mexican productivity gains are not mirrored in wage increases, is the authoritarian policies of the Mexican government. Wage increases are set by agreements between the government, the business associations and the official labor unions. In the 1970's, the ratio between U.S. and Mexican wages was three to one. It has now fallen to eight to one and goes even higher in selected industries.

NAFTA is not primarily a free trade agreement. It is an investment agreement designed to protect investments which U.S. companies make in Mexico.

Second, theory and real life often don't operate in the same manner. According to economic theory, free trade will result in lower consumer prices. But, even the proponents Hufbauer and Schott predict that the "efficiency" benefit flowing to the American consumer as a result of NAFTA will total \$2 billion from a \$6 trillion U.S. economy. Ladies and gentlemen, pull out your pocket calculator. That works out to \$8 a year for the average American or **two cents a day**.

Then, there are additional costs to the U.S. economy that no one is talking about. In addition to the personal and business tax revenue losses

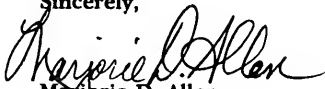
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Page Five

that I have already discussed, the Government Accounting Office recently calculated that the U.S. would lose \$5.9 billion over the next five years from tariff revenues.

What about the cost of worker retraining. The Administration and the NAFTA supporters concede that it will be necessary to institute retrain programs for workers who lose their jobs as a result of NAFTA. A moderate worker retraining costs \$10,000 per worker. If 100,000 workers a year for the next ten years lose their jobs as a result of NAFTA, the cost of retraining would total \$1 billion. This does not include funds for border environmental cleanup and other associated costs.

I hope that these remarks will supplement the original testimony provided by Ms. Chavez-Thompson.

Sincerely,



Marjorie D. Allen
Legislative Affairs Specialist

MDA:mlm

CHAIRMAN CONYERS' FOLLOWUP QUESTIONS - MR. LARRY BROWN

I. IMPACT ON PUBLIC SECTOR JOBS AND SERVICES

1. You have described in your testimony that you can anticipate the effect of the NAFTA on public sector employment because of your experiences with the Canadian-U.S. agreement.
 - In your opinion, will NAFTA have any positive effect on public sector employment?
 - What provisions in NAFTA protect against a similar weakening of social programs in your country?
2. Administration witnesses point to provisions in the agreement that preclude the downward harmonization of standards.
 - How do you respond to this testimony?
3. We have heard in testimony that NAFTA will provide net economic gains for all three countries.
 - How do you respond to this testimony?
 - In what industries do you anticipate job loss?
 - Are there regions of the country that will experience disproportionate job loss or wage reduction?
 - Are there ethnic or minority groups that will disproportionately experience job loss or wage reduction?
 - What does your analysis tell you about the capacity of those groups to recover from the effect of NAFTA?
4. You testified that the provision of new public services and the expansion of existing programs will be almost prohibited under NAFTA.
 - What language in the agreement prohibits the creation or expansion of public services?
 - How do you anticipate this will affect the Clinton Administration's health care reform goals? Couldn't it also have an impact on dislocated workers assistance programs?

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7 September 1993

Rosalind Burke-Alexander
Clerk
Subcommittee on Legislation and National Security
B-373 Rayburn House Office Building
Washington, D.C. 20515
U.S.A.

Dear Ms. Burke-Alexander: .

This is in response to the August 5, 1993 letter sent to me by John Conyers, Jr., Chairman, Legislation and National Security Subcommittee. That letter related to the testimony I gave to the Subcommittee during its recent hearing on the Impact of NAFTA on the Public Sector, and set out several follow-up questions.

As explained earlier, Mr. Conyers' letter arrived at my office while I was attending an international conference in Finland. Therefore, I have only recently been able to put together a detailed reply for the Subcommittee's consideration. You will find it enclosed with this letter.

Please feel free to contact me if you, Mr. Conyers, or other Subcommittee members require any further information.

Sincerely,



Larry Brown
National Secretary-Treasurer

encl.

c.c. James Clancy, National President

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RESPONSES TO QUESTIONS ON NAFTA AND THE PUBLIC SECTOR:

1. NAFTA's effect on public sector employment and provisions in NAFTA which have the effect of weakening of Canadian social programs.

- NAFTA reproduces, expands and extends the original FTA, and as such is a renegotiation of the FTA. The result on the whole makes a bad deal considerably worse for the public sector in Canada. Practically speaking it is often impossible to separate out continuing FTA impacts from anticipated additional NAFTA impacts.
- The core provisions of the FTA enhance the power (and hence mobility) of capital and explicitly reduce vital Canadian government powers. The reduced bargaining power of governments (and unions) vis capital in the new North American market has produced a major restructuring of Canadian industry. The brunt of this restructuring has been borne in the first instance by the manufacturing sector which in the last four years has seen unprecedented plant closures. One of the effects of this restructuring has been the greatly weakened fiscal capacity of federal and provincial governments, both in terms of a shrinking tax base and increase fiscal expenditures to attract large corporate investment.(imagine under NAFTA the consequence of 93 jurisdictions competing for this investment). Although public sector employment to date has fared relatively well compared to private manufacturing employment, the stage is now set for major cutbacks here as well. It should also be noted that the resulting fiscal pressure (which also has its roots in an extremely tight monetary policy--- also thought to be linked to the FTA) has led the federal government and most provincial governments to implement public sector wage freezes and rollbacks.
- Public sector enterprise (or crown corporations as they are called in Canada) has been a vital part of Canadian economic development in a wide range of activities from air and rail transportation to telecommunications to energy (petroleum and electrical) to biotechnology to health care insurance. While the FTA and NAFTA permit the continuation of existing corporations, the FTA (and even more NAFTA) constrains their ability to meet their original mandates which are broader than just commercial goals. The basic thrust of

FTA/NAFTA is that public sector intervention in the economy, whether direct or indirect, is not seen a legitimate or optimal. Although it is tolerated through grandparenting provisions etc., the clear structural bias however is to greater privatization and deregulation which will ensure in the future an increasingly marginal role for the public sector. The Conservative government which is committed to these NAFTA-entrenched goals in a way which fundamentally departs from Canadian traditions, has already privatized dozens of public sector enterprises involving well over 100,000 employees and billions of dollars of assets; and has greatly weakened our social safety net in the last four years.

• For an elaboration of the points described above see the following attached documents:

- Bruce Campbell, "Globalization, Trade Agreements and Sustainability" in "The Environmental Implications of Trade Agreements" CELA, 1993
- Ian Robinson, North American Trader as if Democracy Mattered" Canadian Centre For Policy Alternatives, Sept. 1993
- Jean Swanson, "Ministry of Misery", Canadian Forum Sept 1993
- Mel Clark confidential memo on Medicare
- Canadian Union of Public Employees, Brief to Parliamentary Committee

2. Key provisions encouraging the downward harmonization of labour and environmental standards.

•The core investment provisions introduce a powerful incentive to lower labour and environmental standards in the North American market. There is much evidence that the FTA is already having this effect on Canadian standards which are in general higher than US standard. (For an elaboration see Bruce Campbell in the CELA report op. cit.). None of the nice language either in the preamble or the in the so-called pollution haven clause will have any effect in promoting an upward harmonization of standards. On the contrary they are powerless to prevent the downward pressure on standards imposed by the investment provisions of NAFTA. On standards, as in other areas of the deal, declarative statements are made-- (from a Canadian perspective for example, our cultural industries are supposedly exempted -- NAFTA article 210; or our health care

systems protected (NAFTA annex II-C-9)] when in fact enforcement measures are not provided, or enforcement measures are taken away, or other provisions make them ineffective.

- In theory a province or a state should it want to, or be able to defy the free trade market pressure, is permitted to implement higher standards (eg. article 712). But in practice these standards must meet a series of tests: the "legitimate objective" test, the "necessity" test and the "least trade restrictive" test, which greatly limit the government right and make environmental and social objectives subordinate to deregulated trade and investment priorities.

- In the case of sanitary and phytosanitary standards there is provision for the explicit harmonization of standards. But from a Canadian perspective the direction is downward because the Canadian criterion for developing standards, ie. health risk, has been replaced by the lower risk-benefit standard in which risks to health are weighed against economic benefit.

- A final set of provisions which contribute to lowering of standards involves the transfer of responsibility for setting these standards to secretive international bodies such as Codex Alimentarius in which corporate interests are heavily represented and which public participation or access to information is practically non existent. The history of achieving improvements in standards is the result of political pressure applied by social and environmental activists working at the national and subnational level. Legislative gains achieved in one jurisdiction then serve as models to be replicated in others. The present situation greatly frustrates if not negating, this dynamic.

- For a detailed analysis of these last three points see Michelle Swenarchuk, "The Environmental Implications of NAFTA: a legal analysis in " the Environmental Implications of International Trade Agreements" CELA, 1993 op.cit.

3. The claims of net economic gains for all three countries

- The short response is that in all three countries the winners under FTA/NAFTA are confined to a narrow stratum of society and the losers are middle and lower income citizens in all three countries. It should also be said that NAFTA is a part of a broader approach to

economic and social policy, a neoconservative laissez faire approach which exacerbates unemployment and inequality, perpetuates instability and the underconsumption crisis in which we find ourselves, undercuts standards and erodes the quality of our democracy.

- All the CGE models that government uses to claim that NAFTA will create jobs employ unrealistic assumptions about economic activity under free trade. A study to be published in late September by the Canadian Centre For Policy Alternatives constructs a CGE model into which are plugged 'real world' assumption products some startling different result in terms loss jobs, wages and output. It is also useful to compare the the actual job record under free trade in Canada with the rosy predictions made by these models. the differences are quite dramatic. (see table Bruce Campbell op. cit. page 13)
- The FTA/NAFTA far from being a job creator is a job destroyer. The record of Canada is concrete evidence of that.
- Given past trends, the economy should have created a net 1.5 million jobs. In fact it has created no jobs since the beginning of free trade. On the contrary, there has been an overall destruction of more than 300,000 full-time jobs.
- The official unemployment rate jumped from 7.6% to the current 11.4%. However, taking into account the drop in participation in the job market and the rise in involuntary part-time employment, the real unemployment rate has more than doubled to 15%.
- Manufacturing employment, which was more or less stable throughout the 1980s, collapsed by 22% in the first four years of free trade, a record exceeded only by the worst four years of the 1930s depression. US manufacturing employment, on the other hand, shrank by 6.6% during this period. Particularly vulnerable sectors-- plastics, furniture, machinery-- lost one third of their work force. Clothing lost 40% of its jobs. One prominent computer model had predicted that the clothing jobs would expand 261% under free trade.
- In the province of Ontario, the manufacturing heartland of Canada, the government has recorded 500 permanent closures of major plants. (Multiply by twenty to get a comparison with the US.)
- Real wages, which remained steady throughout most of the eighties, took a dive in the years following the introduction of the FTA. Income disparities within Canada which had been slowly worsening since the mid-1970s, accelerated markedly under free trade. The bottom 60% of Canadian families saw their share of the

Canadian income pie decline more in the four years since 1987 than in the 14 years prior to 1987. (Most of this share was transferred to the richest 10% of families).

- How have supporters of the FTA interpreted these employment facts?

Some acknowledge that the FTA bears a major responsibility for the loss of jobs but say that these are inevitable "adjustment costs" of a shake-out that, once complete, will return the economy to a "full employment" equilibrium. Most, however, assert that Canada's employment problems are not due to the FTA (or only marginally so) but rather are due to cyclical forces, ie., to the global recession which all industrialized countries are experiencing (and how can the FTA be blamed for this?). Moreover, they contend that, because of real world complexities, it is impossible to isolate the role of the FTA as a causal factor in job losses. Even so, they say, overall job loss would have been even greater without the FTA in place. For evidence they point to record goods exports to the US, omitting to mention, however, the even larger record imports of goods and especially services from the US during the last four years.

- But if the Canadian employment problem is basically a cyclical phenomenon, then why did the official Canadian unemployment rate rise by more than double the rise in the US unemployment rate since the end of 1988? Why was the net drop in Canadian manufacturing employment three-and-a-half times greater than the drop in US manufacturing employment since the end of 1988? Why have manufacturing job losses due to permanent plant closures jumped to 65% of total losses during this recession compared to the "norm" of 25% during the last recession? Why do surveys of large corporations regularly reveal the FTA (and NAFTA) to be the dominant factor shaping their restructuring strategies, and why do these strategies indicate an actual or anticipated diversion of investment away from Canada? Although examples of plant closures abound, why is it so difficult to find examples of plant openings, and even rarer, openings that involve major job creation? And why after four long years of recession is the current feeble recovery a "jobless recovery?"

- Answers to these questions would suggest that a major structural change in the Canadian economy, upon which a cyclical process is superimposed, has been the dominant cause of this massive job dislocation. And it is a good bet that the FTA, as the largest structural

shock that the Canadian economy has undergone in recent years, is playing a major (if not precisely quantifiable) role.

- For an analysis of "Manufacturing jobs Vulnerable to Relocation under NAFTA", see Canadian Labour Congress document attached.

- As indicated earlier the effect of the FTA on public sector employment is largely indirect and therefore delayed. However we can now anticipate with the public sector in great financial stress, an accelerated shedding of public sector jobs.

For an account of the prospects for the Canadian educational system under "free trade" see John Calvert and Larry Keuhn " Pandora's Box: Corporate Power, Free Trade and Canadian Education" forthcoming September 1993 (One draft chapter attached)

4. NAFTA and constraints on the provision of public services.

- Many of the constraints on expansion of public services have already been mentioned and and elaborated in the attached documents. Some provisions directly constrain new public services such a those in deal with public monopolies and compensation requirements (see NAFTA chapter 15) It is clear that if the FTA/NAFTA had been in place in 1967 Canada could never have never have brought in its national public health care system. The compensation obligations to private insurance companies and to the drug companies alone would have made it prohibitively expensive. A good example of how the FTA works to discourage the introduction of new public services is the Ontario Government's abandonment of its electoral commitment to bring in public auto insurance similar to that in place in other provinces (see Bruce Campbell--attached--for an brief account of this). The added expense of bringing in a national public child care program under these terms would be prohibitive

- The effect of NAFTA on US health policy would be much different than on Canadian health policy, not only because policies and institutions, traditions differ between the two countries, but also because NAFTA is an agreement between countries of vastly different sizes and economic and political strengths. One can't begin to compare the influence of US corporate power on Canada with Canadian corporate power on the US. Therefore, the withdrawal of

benefits to US producers in the Canadian market for violation of NAFTA is obviously much less damaging than withdrawal of benefits from Canadian producers in the US market. This asymmetry means that US policy can disregard the letter or spirit of NAFTA on an issue of national priority, eg. health care, and not have to be too concerned about a debilitating retaliation. Smaller partners have to be much more careful about following the letter of the law. The harmonization of policies and institutions, without explicit safeguards, results inevitably in the smaller partner coming to resemble the larger. With Canada having a stronger social safety net, more effective mechanisms of redistribution and a greater public sector role in economic and social life, many Canadians who have been influential in creating these policies and institutions are understandably concerned about their erosion.

- For example without a common code of allowable subsidies whether for health care or workers adjustment assistance programs, national law applies under NAFTA, and either country could target either of these programs as an unfair subsidy. In theory both country's programs are vulnerable to trade retaliation. In practice only Canada's are vulnerable because it is much more dependent on the US market than vice versa. Canadian retaliation vs. US exporters that benefit from these programs would be relatively minor compared to the US retaliation against for example Canadian health care 'subsidies'

- That said, it would seem that NAFTA gives another tool to vested US private interests that are resisting changes to US health care in order to protect their interests. The intellectual property provisions of NAFTA entrench and expand the rights of drug company cartels and is anti-competitive in the classic sense. Thus if a US administration wanted to reduce oligopolistic drug pricing by ensure greater competition through compulsory licensing and shorter monopoly protection, it would have difficulty in doing so. The companies would as a last resort charge that it violates international law and challenge the law through for example the NAFTA investor state dispute mechanism before an international tribunal. Similarly NAFTA provisions on monopolies and the compensation requirements-- in the event that the health reform took health insurance at least in partly out of the private domain--could provide additional obstacles to such reform. But again this would be much more a domestic fight with Canadian corporate interests playing at most only a marginal role.

CHAIRMAN CONYERS' FOLLOWUP QUESTIONS - DR. WILLIAM NISKANEN

I. GOVERNMENT PROCUREMENT

1. Mexico is allowed a ten-year transition period to come into compliance with the procurement provisions of NAFTA, as well as an annual set-aside of \$1 billion.
 - In your opinion, what were the factors that led the U.S. to agree to these exclusions when so much of the U.S. market is open to competition?
 - Given these exclusions, how is this agreement fair to U.S. manufacturers and service providers?
 - Doesn't the U.S. market provide disproportionately more opportunities to foreign suppliers?
 - How do we achieve a balance with this agreement?
2. As we have heard earlier, in procurement contracts by government-owned enterprises the threshold for procurement coverage is \$250,000 for goods and services and \$8 million for construction services. This represents much of the Mexican market.
 - How will small and minority businesses will be able to compete in a market with such a high threshold?
 - Given that so much of the Mexican procurement market is subject to this high threshold, doesn't this agreement best serve the interests of larger companies? At the same time, won't small businesses in the U.S. be faced with greater competition from Mexican suppliers?
3. Critics of NAFTA suggest that State governments may be compelled to maintain procurement policies and practices that conform to the requirements of the agreement.
 - Are there any instances in which you can envision NAFTA procurement laws prevailing over State laws?
 - What language in the agreement specifically precludes NAFTA from preempting State procurement laws?

II. IMPACT ON GOVERNMENT ENTITLEMENTS AND PUBLIC SECTOR ACTIVITIES

- 4. You stated in testimony that NAFTA would result in a reallocation of resources toward activities that each party does best.**
- In your opinion, what are those activities that the U.S. does best? What about Canada? What about Mexico?
 - Are there regions of the country that will experience disproportionate job loss or wage reduction?
 - Are there ethnic or minority groups that will disproportionately experience job loss or wage reduction?
 - Should there be a safety net for those who are displaced when activities move to other countries?
- 5. President Clinton has indicated that the NAFTA implementing legislation will include provisions for comprehensive worker adjustment assistance. The Administration has also committed to seeking additional environmental funding to clean-up specific sites and for infrastructure improvement.**
- In your opinion, what would a comprehensive worker adjustment program look like?
 - How should it be paid for?
- 6. Testimony was presented that the provision of new public services and the expansion of existing programs will be almost prohibited under NAFTA.**
- How do you respond to this testimony?
 - How will this affect the Administration's health care reform goals? Couldn't it also have an impact on dislocated workers assistance programs?



August 12, 1993

WILLIAM A. NISKANEN
Chairman

Ms. Rosalind Burke-Alexander
Subcommittee on Legislation
and National Security
B-373 Rayburn House Office Building
Washington, D.C. 20515

Dear Ms. Burke-Alexander:

This letter summarizes very brief responses to the questions raised by Rep. Conyers in his letter to me of August 5.

1. a) I do not know what factors led the U.S. negotiators to agree to the exclusions. You will have to ask them.

 b) I do not know what you mean by the word "fair". The issue should be whether there are net benefits to the proposed agreement, not whether every provision has equal effects on all parties.

 c) The U.S. market provides more total opportunities because it is larger. The Mexican market provides more new opportunities because it has been more closed and is now growing more rapidly.

 d) There is no reason to seek "balance" with this agreement in terms of the effects on every sector.
2. a) The thresholds have the effect of protecting small contractors in each country from foreign competition. Small U.S. firms will have difficulty competing for Mexican government procurement, and small Mexican firms will have difficulty competing for the U.S. government procurement.

 b) Larger firms will have more opportunities in a foreign market and more competition in their home market.
3. a) Article 1210 eliminates any citizenship or residency requirements for the licensing and certification of professional service providers. I know of no other provision that specifically overrides state law.

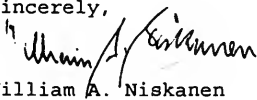
 b) I have not read the final version of Annex 1002.2 that bears on state and provincial government agencies, but I understand that it exempts state and local governments from the general provisions affecting government procurement. In the case of state licensing and certification, Article 1210 provides that "a Party shall

Ms. Rosalind Burke-Alexander
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not be required to extend to a service provider of another Party the benefits of recognition of education, experience, licenses, or certifications obtained in another country . . ."

4. a) In general, the U.S. and Canada have a comparative advantage in goods and services produced by high skilled labor. For that reason, most U.S.-Canada trade is within the same industry. Trade with Mexico is more likely to involve the exchange of technology products and professional services for such goods as apparel and truck farm products.
- b) I do not expect a measurable net reduction of employment or real wages in any region. The regions that are likely to benefit most are the southwest and the north central industrial states.
- c) Any loss of jobs or real wages is likely to be limited to low skilled workers, of whatever race or ethnic group.
- d) I question the value of a special safety net for those displaced by foreign trade. There is a much stronger case for a general program to upgrade the vocational skills of low-skilled workers.
5. a) A comprehensive worker adjustment program should probably include limited term unemployment insurance, vocational training, and possibly relocation assistance.
- b) Reduce spending on the many low priority federal programs. A long list is available from Cato on request.
6. a) I have no idea what might be a plausible basis for this testimony.
- b) No direct effect on health policy reform. Portability of health insurance will facilitate worker adjustment but is already required by law.

Sincerely,


 William A. Niskanen

WAN:ptf



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